

Report of the Senate Select Committee on State Employee Insurance Issues

April 18, 1996

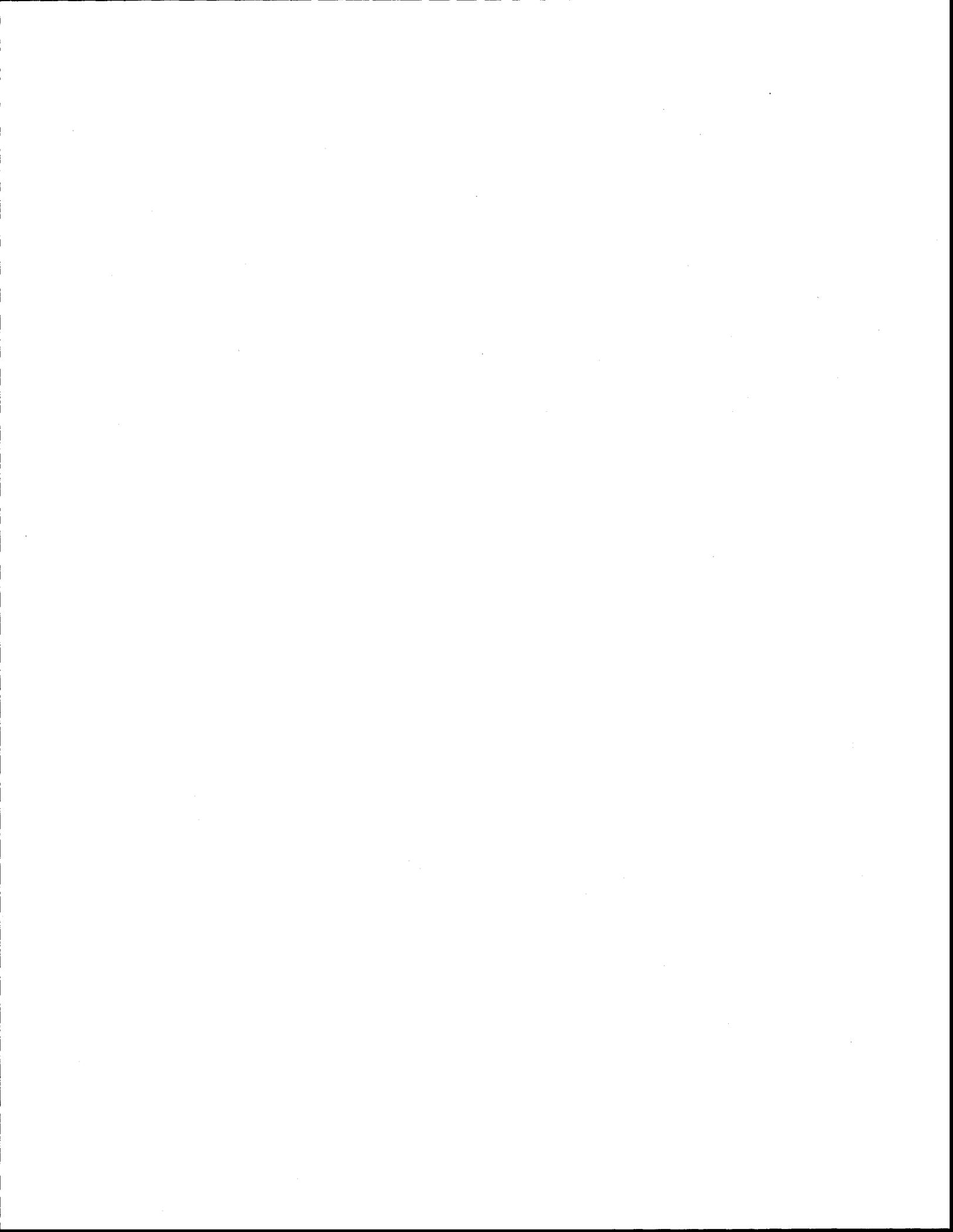


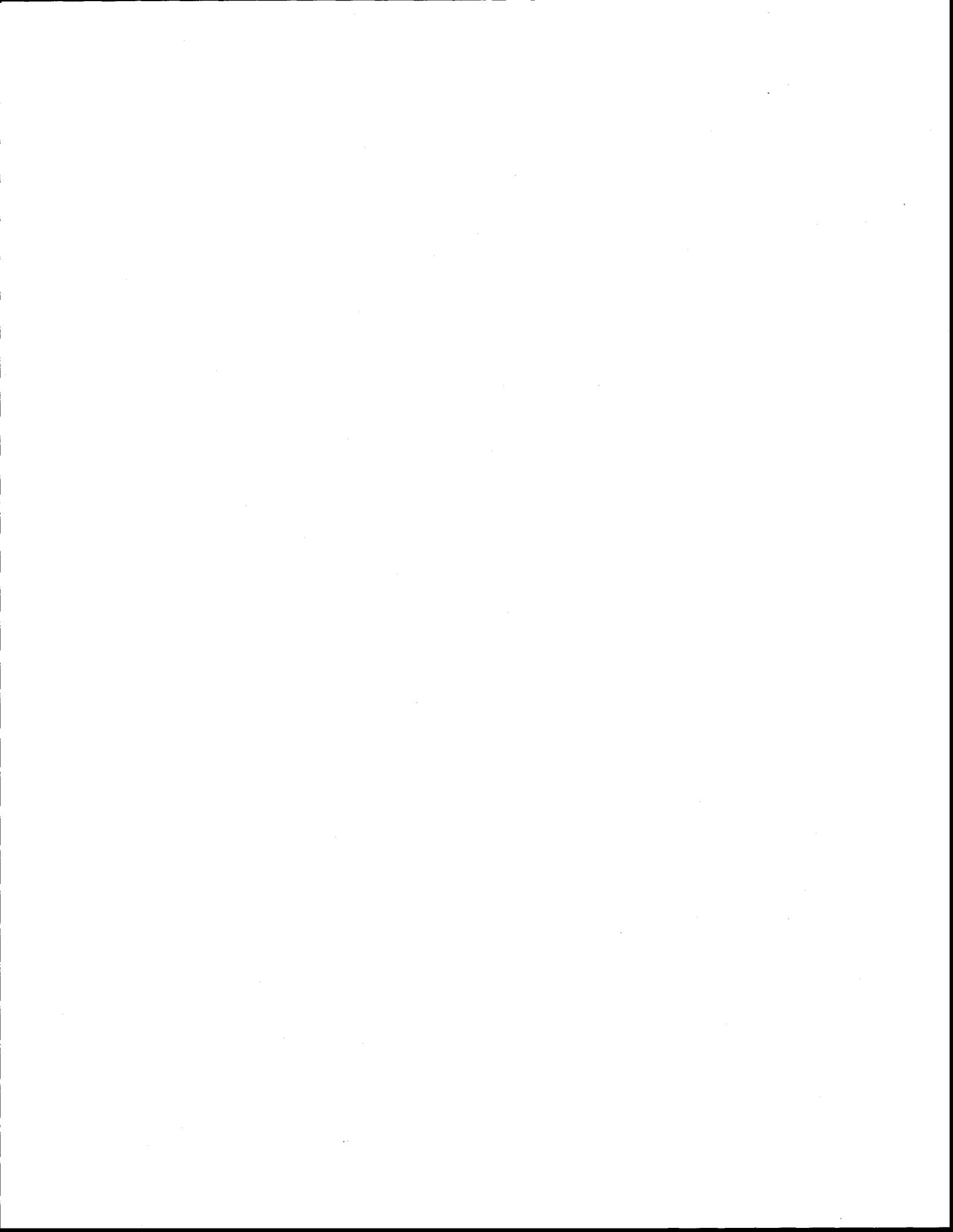
TABLE OF CONTENTS

Letter of Transmittal

Committee Membership	3
Executive Summary.....	4
Overview.....	6
Committee Proceedings.....	8
Recommendations.....	15
Proposed Legislation.....	17

Appendices

Report on Insurance Payroll Deduction to the Joint Legislative Commission on Governmental Operations (October, 1994).....	A
Report of the State Treasurer's Department Task Force to the Governor on Supplemental Insurance (October, 1995).....	B
Statewide Flexible Benefits Program Information.....	C
Office of State Personnel Proposal.....	D
Counsel's Memorandum of April 11, 1996.....	E





North Carolina General Assembly
Senate Chamber
State Legislative Building
Raleigh 27601-2808

SENATOR R. C. SOLES, JR.
DEPUTY PRESIDENT PRO TEMPORE

May 8, 1996

COMMITTEES:

CO-CHAIRMAN
PENSIONS & RETIREMENT
INSURANCE
STATE PERSONNEL

VICE-CHAIRMAN
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JUDICIARY I
COMMERCE
LOCAL GOVERNMENT
RULES

TO THE HONORABLE MARC BASNIGHT
PRESIDENT PRO TEMPORE OF THE SENATE

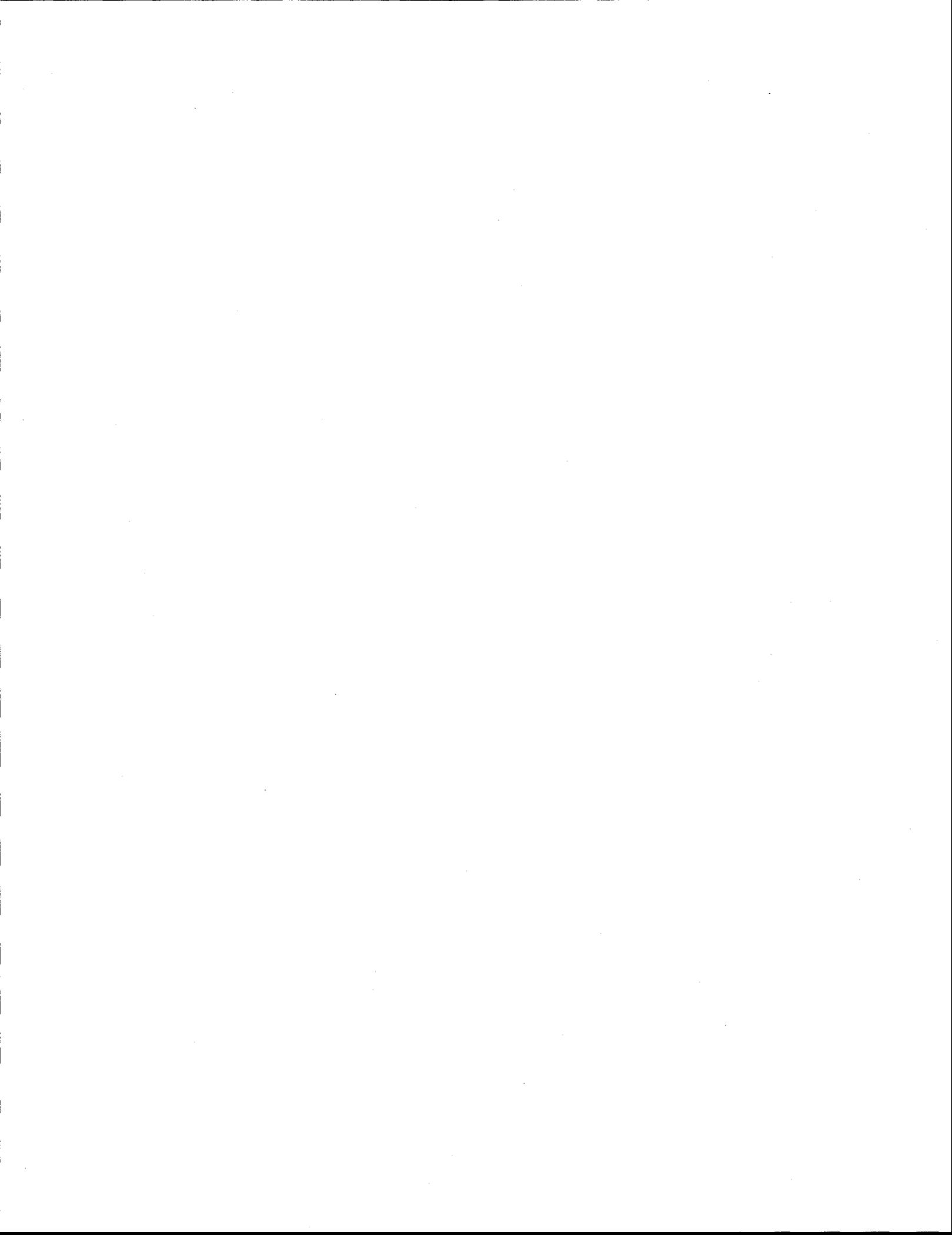
Attached for your consideration is the report of the Senate Select Committee on State
Employee Insurance Issues.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "R. C. Soles Jr.", written in black ink.

R. C. Soles, Jr.
Chairman





COMMITTEE MEMBERSHIP

Senator R.C. Soles, Jr.

Chairman

Senator C.R. Edwards

Senator David Parnell

Senator Wib Gulley

Senator Tony Rand

Senator Donald Kincaid

Senator Dan Simpson

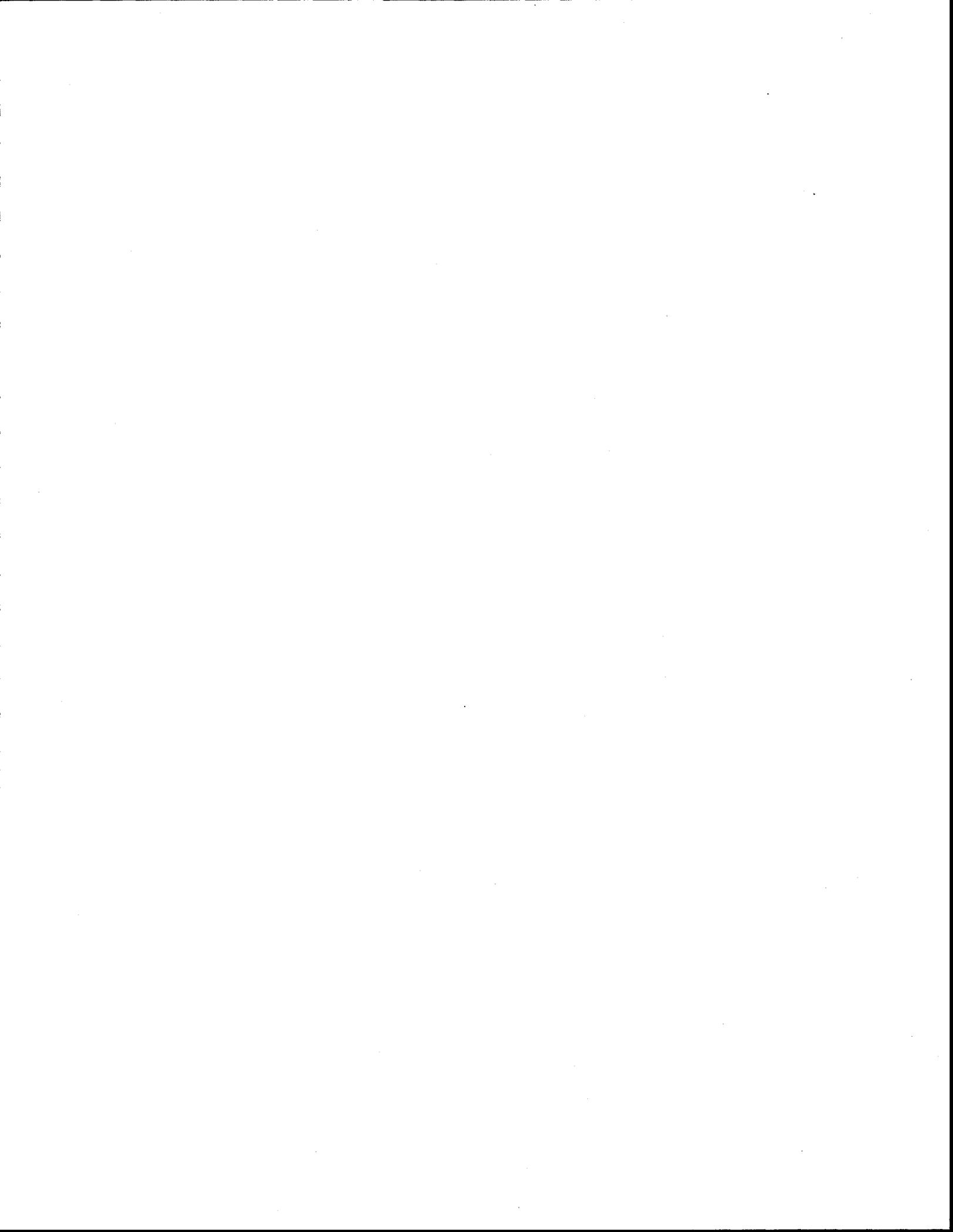
Staff:

Ms. Karen Cochrane-Brown, Counsel

Mr. Linwood Jones, Counsel

Ms. Janet Blalock, Clerk

Ms. Joan Leatherman, Clerk



EXECUTIVE SUMMARY

Senator Marc Basnight, President Pro Tempore of the Senate, created the Senate Select Committee on State Employee Insurance Issues in September, 1995, to examine issues concerning supplemental insurance products for State employees. Supplemental insurance products, such as life insurance, disability insurance, dental insurance and long term care insurance among others are made available to State employees through payroll deduction. A committee of employees from within each "payroll unit" decide what types of products will be made available to employees of that unit and selects the carriers to provide these products. As a result, product availability, features, servicing, and price may vary from payroll unit to payroll unit.

The Senate Select Committee was established in response to concerns about lack of competition and access in the State employee supplemental insurance market. The Committee was charged with investigating these concerns and recommending solutions to address them.

The Committee began its work by examining two previous reports on this issue: (1) the October, 1994 report on "Insurance Payroll Deduction" to the Joint Legislative Commission on Governmental Operations and (2) the October, 1995 report of the State Treasurer to the Governor on the State employee supplemental insurance program. The Committee also heard from agents, the flexible benefits program, employee benefits representatives, and others interested in this issue during its four meetings.

At its April 18, 1996 meeting, the Committee voted to make the following changes:

- prohibit political appointees from serving on the employee insurance committees
- relieve small agencies from the minimum size requirement for employee insurance committees
- establish a central vendor registry in the Department of Administration where all interested vendors can register information about themselves
- require employee insurance committees to report information to the Department of

Administration on their activities

- **require the Department of Insurance to provide technical assistance to employee insurance committees (within available funds)**
- **require contracts to be rebid at least once every three years**
- **consolidate the individual employee insurance committees at DHR into a single committee to represent all of DHR's employees.**

The Committee also heard a proposal to require all agencies to make an election in approximately two years between the employee insurance committee system and the Statewide Flexible Benefits Program. The Committee took no action on this proposal, but noted that it could be considered as an amendment during the session.

OVERVIEW

of Supplemental Insurance and the Statewide Flexible Benefits Program

Supplemental insurance products such as life insurance, dental insurance, long term care insurance, and similar products have historically been made available to State employees through a decentralized process in which each agency payroll unit decides what products should be available and which carriers should be allowed to provide them. Employee participation is voluntary; an employee that decides to participate must pay the premiums. This structure has been in place for several decades, although it was not until 1985 that the General Assembly formalized this structure and defined how the supplemental insurance process should work.

The decision on which products to make available through payroll deduction and which carriers can provide them is carried out through an insurance committee consisting of employees from each payroll unit. The variety of products that a committee can make available is limited only by the number of "active" payroll deduction slots available. Committees are required to choose products that "reflect the needs and desires of the employees of that payroll unit." Product and vendor selection is to be carried out autonomously.

In 1985, the General Assembly enacted legislation to formally recognize the then-existing employee insurance committee system and to establish a formal structure under which those committees would operate. The law requires products to be competitively bid, but is silent on rebidding. Many of the products still in use by agencies today were reportedly first issued prior to the 1985 enactment of the bidding requirement. The law does not expressly address rebidding except to the extent that the insurance committee, by statute, must make selections based on employees' "needs and desires."

Within the past few years, the State has developed a flexible benefits program for the benefit of State employees. The flexible benefits plan is a statewide plan designed to provide various benefits to State employees. Initially, the only benefits it provided were for dependent care assistance. In January,

1996, it expanded into dental insurance, a product that is also offered as a supplemental insurance product by many agencies, and it may expand into other supplemental insurance products in the future. The flexible benefits program derives its authority from different enabling legislation than the supplemental insurance product program. The two programs operate independently of each other.

For purposes of the Senate Select Committee's work, there are three major distinctions between the flexible benefits program and the supplemental insurance program. First, the flexible benefits plan is a centrally-administered plan, with a single statewide advisory committee advising on the selection of vendors. The supplemental insurance program is decentralized, with each payroll unit selecting products. Second, a product offered through the flexible benefits program is uniformly available to all employees at the same cost. A product offered through the supplemental insurance program may cost more at one agency than another, depending on how competitive the bidding for that business was, the size of the market to be serviced, and a number of other factors that can contribute to differences in premiums among agencies. A product offered at one agency may not be available at all at another agency. However, the supplemental insurance program provides an opportunity for choice at the agency level that the flexible benefits program does not. Third, the flexible benefits plan is a pre-tax plan. As a result, State employees are not taxed on the wages they use to pay for insurance premiums under the flexible benefits plan. The employee insurance committee plans are post-tax plans; the employees' wages that are used to pay insurance premiums under these plans are taxed.

COMMITTEE PROCEEDINGS

In August, 1995, just prior to the creation of the Senate Select Committee, Governor Hunt requested State Treasurer Harlan Boyles to review the supplemental insurance program and recommend any necessary changes. Treasurer Boyles issued his report on October 10, 1995 and recommended that "the interests of State employees would best be served" if all supplemental insurance products were handled through a centralized committee. The Treasurer felt, among other things, that the current system of over 75 different employee insurance committees is unwieldy, that the employee insurance committees lack the necessary experience to properly evaluate insurance products, that prices and products vary greatly from agency to agency, and that contracts are often awarded without sufficient competitive solicitation. He also felt that the emergence and growth of the flexible benefits program, with the tax advantages it could offer to employees, would eventually diminish the significance and role of the supplemental insurance products market.

To carry out these recommendations, the Treasurer suggested abolishing the current employee insurance committees either on a date certain or as their current contracts expire. Existing contracts would be honored, but no new contracts would be entered into during the phase-out period. Employees would be allowed to continue any insurance they purchased with the carrier. With the abolition of the employee insurance committees, the current Flexible Benefits Advisory Committee or a similar committee would become the single, centralized committee for all State employees. The Committee would be responsible for choosing the types of products to be offered, bidding out those products, reviewing employee satisfaction with the products and services, and rebidding the products. To the extent allowed under federal law, these centrally-offered products would also be provided on a pre-tax basis.

The Committee reviewed both the Treasurer's report and the 1994 report to Governmental Operations and surveyed the employee insurance committees again for updated information on their

status, activities, membership, and products. Additional testimony was received from others interested in the supplemental insurance program and the flexible benefits program. The Committee conducted meetings on October 18, 1995; February 19, 1996; March 21, 1996; and April 18, 1996. Among those addressing the Committee at its first two meetings were the following:

Dr. Lynn Muchmore presented the history and overview of the supplemental insurance program. Dr. Muchmore researched and authored the report to the Joint Legislative Commission on Governmental Operations in October, 1994. Dr. Muchmore reviewed the problems he had found and the solutions he proposed to address these problems. (See Appendix A).

State Treasurer Harlan Boyles presented his report to the Committee (See Appendix B).

Mr. Ralph Schofield with Pre-paid Legal Services, Inc., spoke to the committee about the difficulties of reaching State employees on State property in many different cities and counties.

Mr. Grayson Kelley, Special Deputy Attorney General, spoke on a lawsuit involving the Department of Transportation and competing vendors of life insurance products. Mr. Kelley asked for more guidance for State employee insurance committees on exclusivity clauses in supplemental insurance contracts (a clause that gives a carrier the exclusive right to market a particular product to an agency) and whether agencies should renew without rebidding. Mr. Kelley noted there had been varying interpretations of this in the past.

Ms. Kitty McCollum, Assistance Vice President, Finance, and University Benefits Officer, UNC General Administration, spoke to the Committee and noted that the present employee insurance system works well for the universities.

Mr. Pani Tadementi, Flexible Benefits Manager of the Office of State Personnel, presented an overview of the State Flexible Benefits Program (see Appendix C for a discussion of the Program).

Mr. Don Waugh, Assistant State Controller, presented an overview of the payroll deduction process. Approximately 70,000 employees are paid through the central payroll system, with a monthly payroll of about \$195 million per month. There are 68 insurance carriers now providing products through payroll deduction. The amount payroll deducted for insurance premiums each month totals over \$5 million.

Mr. Joe Thomas of State Insurance Services, Inc., felt that the current system allowed each employee insurance committee to be more in touch with its employees than a centralized system. Mr. Thomas felt that these committees knew their employees' needs and could respond accordingly by soliciting products to meet those needs.

Mr. Steve Isaacs, Vice President of Group Sales for Ameritas Life Insurance Corporation, explained difficulties vendors had in responding to the recent RFP for dental insurance under the Flexible Benefits Program.

Mr. Mickey Faulk of Mickey Faulk and Associates and Vice President of State Insurance Services spoke on behalf of the continued need for insurance agents in the process and noted that they had served the system well. He reiterated Mr. Thomas' comments that the system functions better at the agency level rather than the State level. Mr. Faulk did feel that the many DHR committees could be combined into a single DHR committee.

For comments by others to the Committee and handouts or other materials presented to the Committee, please consult the Committee minutes.

At its third meeting, Mr. Linwood Jones, serving as committee counsel, presented two legislative drafts -- one that would implement the recommendations of Treasurer Boyles and one that would implement several of the recommendations contained in the 1994 report to Governmental Operations. Mr. Jones noted that the first draft was his idea of how to carry out the Treasurer's recommendations and that he would have the Treasurer's office review this legislation and comment on it. This draft would

abolish the employee insurance committees on July 1, 1998. Until that time, the employee insurance committees could not contract for new products nor could they renew existing products beyond that date. If an existing contract has an expiration date beyond July 1, 1998, the contract would be honored and not impaired by the State. However, if the contract has no expiration date and is terminable at the will or convenience of the insurance committee, it must be terminated by July 1, 1998.

The Statewide Flexible Benefits Advisory Committee that currently administers the flexible benefits program for the State would be renamed the Supplemental Insurance Benefits Committee. With the abolition of the employee insurance committees on July 1, 1998, it would become responsible for selecting supplemental insurance products and insurance providers for all State employees. The selections would be made with assistance from the Office of State Personnel. Products would be reviewed to ensure that they continue to meet the needs of State employees and would be rebid periodically. Prepaid legal services would also be made available to State employees through this Committee (although they currently do not qualify for the tax advantages that many of the other supplemental policies would qualify for).

The second draft would carry out the following three recommendations from the 1994 Governmental Operations report. It would also require employee insurance committees to send in information about their activities and products to the Department of Administration:

(1) Creation of a technical assistance program in the Department of Insurance (within available funds). This would allow the Department to assist agencies, to the extent its resources allow, in understanding insurance contracts and coverages, preexisting condition clauses, exclusions, and related insurance matters.

(2) Creation of a centralized vendor file and a centralized employee insurance committee information file in the Department of Administration. A centralized vendor file serves both the insurance committees and vendors. It ensures that vendors have access to the process, because agencies must consult the list of vendors before soliciting bids. It also assists the committee in getting a

competitive number of bids.

(3) Declaring political appointees ineligible for membership on the employee insurance committees. Although the committees are already required to operate without undue influence, this would help eliminate additional concerns about undue influence.

Mr. Jones noted that the second bill did not consolidate the DHR agency committees into a single DHR committee as had been suggested by a speaker at a previous meeting of the Committee. There was some discussion of this issue, including comments that this had been attempted in the past and failed. The DHR employees were reportedly displeased and dissatisfied with the consolidation, and the single committee was subsequently dissolved, allowing the DHR institutions and agencies to return to separate employee insurance committees. The Committee requested that DHR address this issue at the April 18th meeting.

The Committee recommended additional language that would require rebidding of contracts at least once every three years. The Committee also asked that counsel review the exception that would allow political appointees to serve on committees "to the extent necessary to maintain the minimum number of employees" required for an employee insurance committee. Counsel noted that some agencies are very small and could have difficulty finding the minimum of five people who would not be disqualified from serving.

At its fourth meeting, April 18, 1996, the Committee heard from Mr. Steve Davis, Director of Personnel Services for the Department of Human Resources, about the potential consolidation of the many DHR insurance committees into one committee for all of DHR. Mr. Davis stated that the agency favored the move to a single committee for DHR and noted that it had worked well when it was tried several years ago. He felt that this would be a more efficient and cost-effective way to administer the programs. The Committee voted to consolidate the DHR committees into one.

Mr. Jones, Committee Counsel, reviewed the drafts with the Committee. The original draft to

implement the Treasurer's recommendations was unchanged. The other draft had been revised to address rebidding and service by political appointees on employee insurance committees of small agencies. Mr. Jones noted that some concern had been expressed about requiring rebidding every three years. (See April 11 memo in Appendix E). Mr. Jones drafted language to address these concerns – language that would require re-evaluation every three years, but would stop just short of actually requiring rebidding. Senator Gulley felt that rebidding should be required and noted that these concerns could be addressed. Although a product would be required to be rebid every three years, the insurance committees would continue to award contracts based on the needs and desires of their employees. For example, a committee might reject a proposal for disability insurance as not meeting the “needs and desires” of its employees if the proposal does not credit employees with having satisfied waiting periods under their current disability policies. The Committee moved to change the draft to require rebidding at least once every three years, recognizing there may be certain types of products that the agency may want to or should rebid more frequently.

Mr. Jones noted that the draft attempted to address the problem Senator Gulley had raised at the earlier meeting concerning political appointees. “Political appointees,” as defined in the bill would be ineligible for membership on the committees (although any currently serving on committees could finish out their terms so as not to disrupt the ongoing committee process). The original draft would have allowed political appointees to serve on committees if necessary to meet the minimum size requirement (5 persons) on an employee insurance committee. In response to concerns expressed by Senator Gulley about the potential misuse of this exception, Mr. Jones redrafted the provision to allow agencies of 25 or fewer employees to be exempt from the minimum size requirement and the “no political appointee” requirement. Senator Gulley asked that these small agencies be exempted from the minimum size requirement, but not the “no political appointees” requirement. The Committee agreed and asked that the language be changed accordingly.

Mr. Carl Goodwin of the Office of State Personnel spoke to the Committee about changes their office wanted to suggest. Mr. Goodwin presented a proposal to the Committee (See Appendix D) that would require each agency to choose, approximately two years from now, between the employee

insurance committee system and the Statewide Flexible Benefits Program. The change was proposed in conjunction with both bills pending before the Committee: i.e., the changes in draft 005 concerning the Statewide Flexible Benefits Program would be made, including the abolition of the employee insurance committees for those agencies electing to go with the Flex program, and the changes to the operations of the employee insurance committees in draft 005.2 would also be made. Counsel noted that these changes could and should be brought together into one bill – a bill that would make the changes to the State Flex Program Committee (now contained in 005), make the changes to the employee insurance committee operations (now contained in 005.2), and require agencies to make an election by July 1, 1998, on which of these two benefits systems they will use. The Committee took no official action on this proposal but noted that it could be considered as an amendment during the legislative session to any legislation proposed by the Committee.

The Committee voted to approve draft 005.2, as amended, and adopted the final report. This concluded the business of the Senate Select Committee. The report will be forwarded to the President Pro Tempore of the Senate for his review.



RECOMMENDATIONS

The Senate Select Committee on State Employee Insurance Issues makes the following recommendations:

1. ***Prohibit political appointees from serving on employee insurance committees.*** The employee insurance committees are already required to operate autonomously, without undue influence. This recommendation will help reduce undue influence and the perception of undue influence. In order not to disrupt the ongoing work of committees, any committee members currently serving who would be disqualified by this change could complete their current terms of service on the committees.
2. ***Relieve small agencies from the minimum size requirement for an employee insurance committee.*** Current law requires an employee insurance committee to have at least five (and no more than nine) employees on the committee. Because of the proposed change to disqualify political appointees, it was felt that a small agency (25 or fewer employees) may have difficulty meeting the minimum size requirement.
3. ***Require a central vendor registry in the Department of Administration.*** This would allow vendors who want to sell insurance products to provide non-proprietary information about their products and this businesses for review by employee insurance committees. The committees would be required to consult this registry when receiving proposals on a product. All registered vendors that provide the product must be notified by the agency seeking proposals.

4. ***Require employee insurance committees to report their activities to the Department of Administration.*** This recommendation would provide for centralized collection of information about employee insurance committees. This information will be useful to agencies in comparing product availability and prices among all of the agencies. It will also be useful in comparing the impact of the statewide flexible benefits program on employee insurance committee products as the statewide program moves into additional products in the future.

5. ***Require the Department of Insurance to provide, within available funds, technical assistance to the employee insurance committees.*** This will help new committees and those with less experience in understanding insurance provisions and evaluating products.

6. ***Require employee insurance committees to rebid contracts at least once every three years.*** This ensures that the State employee insurance market is competitive and that committees are seeking the best possible products and vendors for their employees. The decision on awarding the contract will still be made based on the “needs and desires” of the employees of the agency.

7. ***Consolidate all of the individual employee insurance committees of the Department of Human Resources into a single committee for all employees of that Department.*** This will allow the Department to pool its employees to compete on better terms for insurance products, will eliminate problems that arise when DHR employees make intra-agency transfers, and will allow all DHR employees to have access to the same products.

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1995

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D

Senate 96-RNZ-005.3
THIS IS A DRAFT 8-MAY-96 15:00:52

Short Title: Supplemental Insurance Benefits (Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE LAWS GOVERNING EMPLOYEE INSURANCE COMMITTEES.
3 The General Assembly of North Carolina enacts:
4 Section 1. G.S. 58-31-60 reads as rewritten:
5 "§ 58-31-60. Competitive selection of payroll deduction
6 insurance products paid for by State employees.
7 (a) Employee Insurance Committee. -- The head of each State
8 government employee payroll unit offering payroll deduction
9 insurance products to employees shall appoint an Employee
10 Insurance Committee for the following purposes:
11 (1) To review insurance products currently offered
12 through payroll deduction to the State employees in
13 the Employee Insurance Committee's payroll unit to
14 determine if those products meet the needs and
15 desires of employees in the Employee Insurance
16 Committee's payroll unit.
17 (2) To select the types of insurance products that
18 reflect the needs and desires of employees in the
19 Employee Insurance Committee's payroll unit.
20 (3) To competitively select the best insurance products
21 of the types determined by the Employee Insurance

1 Committee to reflect the needs and desires of the
2 employees of that payroll unit.

3 As used in this section, "insurance product" includes a prepaid
4 legal services plan registered under G.S. 84-23.1.

5 (b) Appointment of Employee Insurance Committee Members. --
6 The members of the Employee Insurance Committee shall be
7 appointed by the head of the payroll unit. ~~The~~ Except for a
8 payroll unit with twenty-five or fewer employees, the Committee
9 shall consist of not less than five or more than nine individuals
10 a majority of whom have been employed in the payroll unit for at
11 least one year. The committee members shall, except where
12 necessary initially to establish the rotation herein prescribed,
13 serve three-year terms with approximately one-third of the terms
14 expiring annually. Committee membership make-up shall fairly
15 represent the work force in the payroll unit and be selected
16 without regard to any political or other affiliations. Employees
17 designated in G.S. 126-5(c)(2), (3), and (4) and G.S. 126-
18 5(c1)(1) and (5) are ineligible for membership on the Committee.

19 It shall be the duty of the payroll unit head to assure that
20 the Employee Insurance Committee is completely autonomous in its
21 selection of insurance products and insurance companies and that
22 no member of the Employee Insurance Committee has any conflict of
23 interest in serving on the Committee. A committee on employee
24 benefits elected or appointed by the faculty representative body
25 of a constituent institution of The University of North Carolina
26 shall be deemed constituted and functioning as an employee
27 insurance committee in accordance with this section. Any decision
28 rendered by the Employee Insurance Committee where the autonomy
29 of the Committee or a conflict of interest is questioned shall be
30 subject to appeal pursuant to the Administrative Procedure Act,
31 or in the case of departments, boards and commissions which are
32 specifically exempt from the Administrative Procedure Act,
33 pursuant to the appeals procedure prescribed for such department,
34 board or commission.

35 ~~All payroll units in existence on May 21, 1985, shall continue~~
36 ~~to be deemed payroll units, regardless of any subsequent~~
37 ~~consolidation of such payroll units, for purposes of the~~
38 ~~appointment of the members of the Employee Insurance Committee in~~
39 ~~order to assure such units the continuing ability to meet the~~
40 ~~needs and desires of the employees of such units by having the~~
41 ~~right to select insurance carriers and insurance products. No~~
42 ~~Employee Insurance Committee shall be created for employees~~

~~1 represented by a previously existing committee. Any such
2 duplicative Employee Insurance Committees are hereby disbanded.
3 Notwithstanding any other provision of this section, there shall
4 be one Employee Insurance Committee for all employees of the
5 Department of Human Resources. In the event of the consolidation
6 of a payroll unit, the head of the former payroll unit shall
7 appoint the members of the Committee in accordance with the
8 provisions of this section.~~

9 (c) Payroll Deduction Slots. -- Each payroll unit shall be
10 entitled to not less than four payroll deduction slots to be used
11 for payment of insurance premiums for products selected by the
12 Employee Insurance Committee and offered to the employees of the
13 payroll unit. The Employee Insurance Committee shall select only
14 one company per payroll deduction slot. The Company selected by
15 the Employee Insurance Committee shall be permitted to sell
16 through payroll deduction only the products specifically approved
17 by the Employee Insurance Committee. The assignment by the
18 Employee Insurance Committee of a payroll deduction slot shall be
19 for a period of not less than two years unless the insurance
20 company shall be in violation of the terms of the written
21 agreement specified in this subsection. The insurance company
22 awarded a payroll deduction slot shall, pursuant to a written
23 agreement setting out the rights and duties of the insurance
24 company, be afforded an adequate opportunity to solicit employees
25 of the payroll unit by making such employees aware that a
26 representative of the company will be available at a specified
27 time and at a location convenient to the employees.

28 Notwithstanding any other provision of the General Statutes,
29 once an employee has selected an insurance product for payroll
30 deduction, that product may not be removed from payroll deduction
31 for that employee without his or her specific written consent.

32 When an employee retires from State employment and payroll
33 deduction under this section is no longer available, the
34 insurance company may not terminate life insurance products
35 purchased under the payroll deduction plan without the retiree's
36 specific written consent solely because the premium is no longer
37 deducted from payroll.

38 (c1) Procedure for Selection of Insurance Product Proposals.
39 -- When soliciting insurance product proposals, the Committee
40 shall ensure that adequate notice of the solicitation has been
41 given and that all vendors listed in the Department of
42 Administration's central vendor registry for that insurance

1 product have been notified. All insurance product proposals
2 shall be sealed. The Committee shall open all proposals in public
3 and record them in the minutes of the Committee, at which time
4 the proposals become public records open to public inspection.

5 After the public opening, the Committee shall review the
6 proposals, examining the cost and quality of the products, the
7 reputation and capabilities of the insurance companies submitting
8 the proposals, and other appropriate criteria. The Committee
9 shall determine which proposal, if any, would meet the needs and
10 desires of the employees of that Committee's payroll unit and
11 shall award a payroll deduction slot to the company submitting
12 the proposal that meets those needs and desires. The Committee
13 may reject any or all proposals.

14 A company may seek to modify or withdraw a proposal only after
15 the public opening and only on the basis that the proposal
16 contains an unintentional clerical error as opposed to an error
17 in judgment. A company seeking to modify or withdraw a proposal
18 shall submit to the Committee a written request, with facts and
19 evidence in support of its position, prior to the award of the
20 payroll deduction slot, but not later than two days after the
21 public opening of the proposals. The Committee shall promptly
22 review the request, examine the nature of the error, and
23 determine whether to permit or deny the request.

24 (d) Criminal Penalty. -- It shall be a Class 3 misdemeanor for
25 any State employee, who has supervisory authority over any member
26 of the Employee Insurance Committee, to attempt to influence the
27 autonomy of any Employee Insurance Committee either in the
28 appointment of members to such Committee or in the operation of
29 such Committee; or for anyone to open a sealed insurance product
30 proposal or disclose or exhibit the contents of a sealed
31 insurance product proposal, prior to the public opening of the
32 proposal. The Commissioner of Insurance shall have the authority
33 to investigate complaints alleging acts subject to the criminal
34 penalty and shall report his findings to the Attorney General of
35 North Carolina.

36 (e) Resolicitation. Each Committee must solicit new proposals
37 for products it offers under this section at least once every
38 three years.

39 (f) Central registry.--The Department of Administration shall
40 maintain a central registry of the following:

41 (1) Vendors: A vendor may request the Department to
42 list it on the central registry. Registration shall

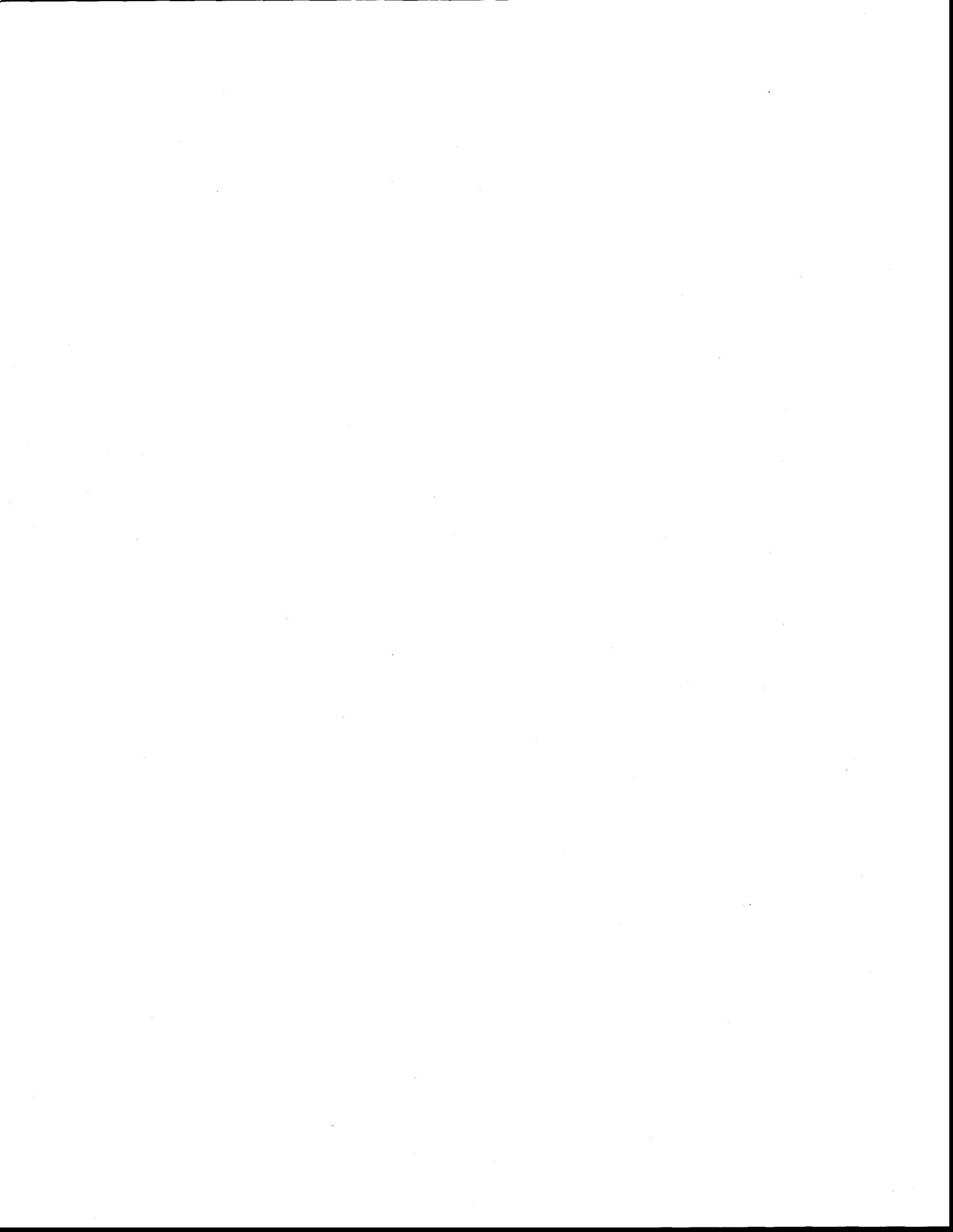
1 include the name of the vendor, basic non-
2 proprietary business information about the vendor,
3 its representatives or agents, and a description of
4 its available products. A vendor that is not
5 licensed to transact the business of insurance in
6 this State may not be listed on the registry.

7 (2) Employee insurance committees: Each employee
8 insurance committee shall report to the Department,
9 as directed by the Department, the names and terms
10 of its members, the insurance products if offers
11 its employees, the vendors providing those
12 products, the date when those products were last
13 bid, a summary of the review findings under
14 subsection (e) of this section, and the premiums
15 charged through payroll deduction for those
16 products.

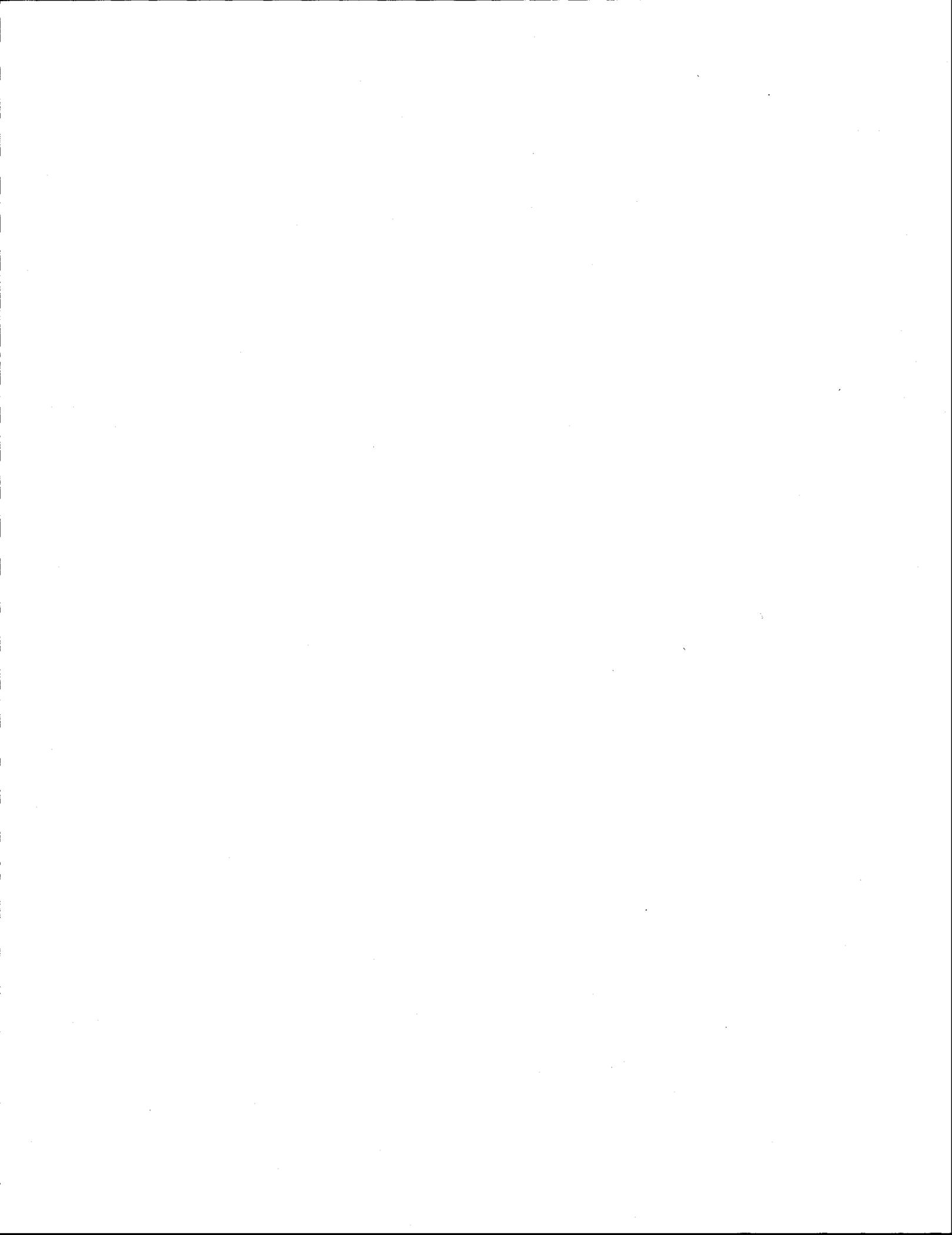
17 (g) Technical assistance.-- The Department of Insurance shall
18 provide technical advice, within available funds, to the employee
19 insurance committees to assist them in understanding and
20 evaluating insurance products and their features."

21 Sec. 2. Effective January 1, 1997, the employee
22 insurance committees of the Department of Human Resources are
23 abolished and shall be replaced with a single employee insurance
24 committee, appointed by the Secretary of Human Resources, to
25 represent all employees of that Department.

26 Sec. 3. This act is effective upon ratification.
27 Notwithstanding the provisions of G.S. 58-31-60(b), as amended by
28 this act, and except as provided in Section 2 of this act,
29 employee insurance committee members serving on the effective
30 date of this act may continue to serve until the expiration of
31 their current term.



APPENDIX A

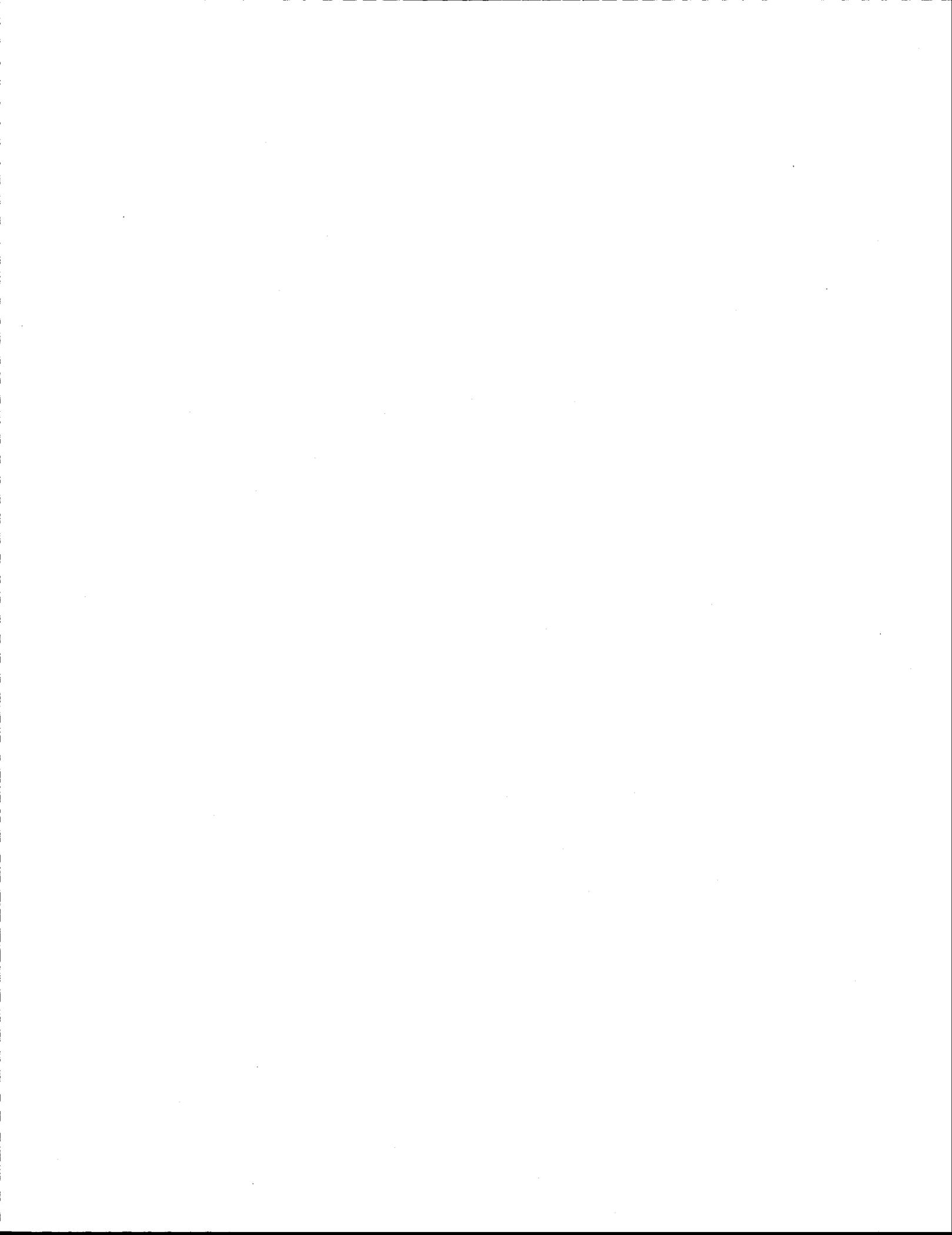


INSURANCE PAYROLL DEDUCTION

Report to
JOINT LEGISLATIVE COMMISSION
on
GOVERNMENTAL OPERATIONS

By: Lynn Muchmore
Fiscal Research Division

October, 1994



INSURANCE PAYROLL DEDUCTION

Operating History and Legal Background

The Executive Budget Act allows state employees to make certain payments through payroll deduction. Among those payments are premiums for life, hospital, medical, or disability insurance. The authorizing statute (G.S. 143-3.3) has a long history. In 1935, hospitals, building and loan associations, and life insurance companies were exempted from a prohibition against the issuance of state warrants to an assignee of a claim against the state. This exemption permitted issuance of warrants to a hospital, a building and loan association, or a life insurance company when an employee assigned a portion of his/her salary or wage payment to such an entity. The exemption has been expanded or modified more than a dozen times, and now permits assignments to credit unions, athletic programs at educational institutions, prepaid legal services programs, the Combined Campaign, charitable organizations, employee organizations, and uniform rental companies.

Although the basic statutory authority dates back more than 60 years, application to insurance premium payments does not appear to have become widespread until the late fifties or early sixties. Once it began, the practice seems to have flourished.

A 1983 amendment expanded the exemption for "life insurance companies" to include "medical, hospital, disability, and life insurance companies," apparently legitimizing assignments that were already being honored despite the lack of statutory authority. In 1985 the General Assembly further addressed payroll deductions for insurance premium payments by adopting the language of G.S. 58-31-60 (See Attachment V), which presumes to establish an orderly framework for the selection and marketing of insurance products to state employees.

The 1985 action is an important milestone in the development of issues presented for study. Prior to that enactment, each state agency was left to decide whether and how products would be offered, and equally important, which companies would have access to the state employee market. The only limitation was a practical one determined by payroll officers, who regulated the number of separate payroll deductions that could be managed through the payroll system.

The insurance market made accessible through state government payroll deduction is extremely valuable. In April, 1994, the annualized premiums for insurance products deducted from central payroll (which excludes most of the universities and all of NCDOT except Motor Vehicles Division) was \$20.9 million. Nearly forty companies are offering insurance through one or more central payroll departments.

Companies continue to receive premiums for policies purchased in the past by employees who chose to retain coverage even though the issuing company can no longer market its product in the agency. This distinction should be noted, because it is a source of confusion among employees and administrators. At any point in time the number of insurance companies offering insurance products to employees of a given state agency cannot exceed six. Thus the frequently heard phrase, "There are only six payroll slots for insurance." However, the employees who have insurance coverage obtained in the past are entitled to keep that coverage through payroll deduction even though the company may no longer accept additional enrollees. To accommodate this requirement, payments are made through what is referred to as "inactive slots." Most departments have several inactive slots in addition to their active slots. It appears that there is no technical limitation to the number of slots in either of these categories. The Controller's Office, payroll section, determines only the number of active slots.

The 1985 legislation, entitled "An Act to Insure the Competitive Selection of Payroll Deduction Products Paid for by State Employees" (codified as G.S 58-31-60), establishes a systematic framework within which insurance products are to be made available. Responsibility for the selection of products and the selection of vendors to offer those products is given to Employee Insurance Committees created in each payroll unit. The

committees are given three tasks: (1) to review insurance products currently offered to determine if those products meet the needs of employees (2) to select the types of insurance that reflect the needs and desires of employees (3) to competitively select the best insurance products of the types determined to reflect employee needs and desires.

Decisions made by an Employee Insurance Committee can be appealed pursuant to the Administrative Procedures Act only on grounds of conflict of interest or on grounds that the autonomy of the Committee has been compromised. Legislative desire to safeguard the independent judgment of the Employee Insurance Committees is evident in the language of G.S. 58-31-60. Committee appointments are to be non-political. The committee is to be "completely autonomous" and its members must have no conflict of interest. An attempt by anyone with supervisory authority over a committee member to influence the decision of the committee member is deemed a misdemeanor punishable by fine or imprisonment.

Sheltered by the assurance of autonomy, the Employee Insurance Committees have wide latitude within this statute to determine their own rules of business conduct. They can be very active or they can meet infrequently. Over time they may aggressively solicit the interest of insurance providers, or may choose merely to renew contracts with familiar companies. They may invite bids according to exacting specifications, or they may

use highly generalized requests for proposals. As might be expected, the conduct of Employee Insurance Committees varies greatly from agency to agency.

Observations reported below derive from three principal sources of information: (1) a March, 1994 survey of state agencies (2) central payroll data from February and March, 1994, and (3) interviews with several insurance agents actively marketing products through the payroll deduction system. Additionally, Fiscal Research staff had several conversations with state agency personnel, particularly those in the payroll section of the Controller's Office. With a single exception, all persons consulted were cooperative. Of the 46 survey instruments sent to state agencies, 40 were satisfactorily completed and returned.

Compliance with Statutory Requirements

The provisions of G.S. 58-31-60 seem calculated to assure that insurance products made available by payroll deduction are selected objectively, using open competitive procedures, free of political influence, to reflect the needs of the employee work force. For the most part, these requirements are being observed in practice. However, information in the Survey Results (Attachment I) reveals a lack of consistency that some will find troubling.

Employee Committees. By statute an Employee Insurance Committee is to have no fewer than five nor more than nine members, selected for three-year staggered terms without regard to political or other affiliation, who fairly represent the work force. The Committee continuously reviews products currently being offered and selects new products where appropriate.

Of the thirty-nine (39) agencies who returned usable information about employee committees, thirteen (13) failed to comply with statute for one or more of the following reasons: (1) Employee Insurance Committees have not been appointed or are not functioning (2) committee members do not have staggered terms, or (3) the Committee has fewer or more members than the law specifies. Three of the thirteen indicated that they are or will soon be taking steps to come into compliance. The most important type of noncompliance may be the failure to establish staggered terms, since that failure poses a threat to the committee autonomy seemingly prized by the General Assembly in its framing the statute.

Among the agencies with operating committees who gave usable answers to the survey in February, 1994, the typical Employee Insurance Committee had met 4-5 times during the previous twenty-seven months. This suggests a moderate level of activity not out of keeping with the intent of the 1985 legislation. Presumably, the number of meetings is increased by a decision to change products or to renegotiate contracts, which may in turn

reflect the sensitivity of the committee to the changing desires of the agency workforce.

Many Committees conduct their business in an informal style. The majority of agencies furnishing usable responses indicated that no written procedures have been developed. Three-quarters of the respondents have no marketing guidelines, even though the law clearly requires a written agreement with the insurance provider setting forth allowable marketing activity. Contrary to the statute, five (5) agencies with operating committees keep no committee minutes.

Impressions left by the survey returns were confirmed by interviews with several insurance company representatives. Their observation was that Employee Insurance Committees vary greatly in their sophistication, diligence, and interest.

Selection Process. The 1985 legislation requires that insurance products purchased through payroll deduction be selected by competitive bid. Sealed bids must be opened in a public meeting. Upon bid opening, proposals become part of the public record. Choice of the successful vendors must be based upon the finding that a specific proposal "would meet the needs and desires of the employees."

Survey returns generally indicate that agencies are adhering to the competitive selection requirement. In only a few agencies,

however, is there evidence of practices that would meet the ordinary standards found in governmental purchasing.

First, no standard or uniform vendor list is being used. Thus there is no assurance that all interested and qualified insurance providers receive invitations to bid when Committees determine to choose a new product. Typically, Committees notify companies that "have expressed an interest in" potential sales opportunities. Some borrow names of agents and companies from sister agencies.

Secondly, Committees are not required by law to obtain a minimum number of qualified bids.

Thirdly, Committees do not retain specialists to evaluate the technical merits of alternative insurance products. The complexity of modern insurance programs makes comparison buying a tedious and demanding exercise. Yet not one agency from the forty-one (41) who returned surveys utilizes a third party evaluator.

Finally, no standard specification protocols are used in the invitations for bids. Without appropriate bid specifications the objective comparison of insurance products becomes, practically speaking, impossible.

Failure to observe the common purchasing practices referenced

above is an invitation to abuse. Hypothetically, it would be possible for a Committee to preselect a vendor by inviting a single company to bid, without putting that invitation in writing or circulating the invitation in any form, then accepting a proposal devoid of substance at an unannounced "public" meeting -- all without violating any of the statutory provisions adopted by the General Assembly to guarantee competition.

Insurance representatives interviewed during the preparation of this report adamantly contended that competition among vendors is real and intense, and that state employees are reaping the benefits of competition in value received. At the same time, they observed that the market defined by payroll deduction is extremely difficult to penetrate for any save established providers with experience in this specific area. It appears that a small group of successful companies and agents actively vie for state employee business, but that barriers to entry are prohibitive for companies outside that group.

Of the \$20.9 million in annualized premiums flowing through central payroll deduction in March, 1994, \$14.7 million, or 70 per cent, was paid to three companies: Colonial Life, Blue Cross/Blue Shield, and Protective Life (See Attachment II, Annualized Premium Payments). Such market concentration invites comment.

First, current premium payments reflect an accumulation of sales history, not just current sales patterns. Colonial Life has been in this market on a sustained basis longer than most companies, and therefore its prominence could be expected.

Secondly, certain features of the selection process favor established companies with a "track record." Since few Employee Committees have the expertise to make technical comparisons among insurance products, they perceive as less risky those larger companies that have already done business with the agency or a sister agency. This practice would give an inevitable advantage to already-established companies. Further, much of the effective marketing is done through personal contact with committee chairmen, committee members, or agency management, and the advantage of personal familiarity goes to those insurance representatives who have been active over a long period.

Finally, the mechanics of payroll deduction may benefit companies who can offer a package consisting of several products rather than a single product line. A payroll deduction is made for each company with which an employee is enrolled. Dedicating a slot to a single-product company means that employees have fewer options than if the same slot were given to a multi-product company. Until recently, only four "slots" have been available. Employee Insurance Committees who seek the widest possible array of alternatives for their agency's employees will tend toward multi-product firms.

Because important characteristics one would expect to find in a truly competitive purchasing environment are lacking in the payroll deduction insurance program, the General Assembly's objectives have been only partially achieved. At the same time, however, it would be over-reaching to conclude that the system established in the 1985 legislation is not working. In contrast with earlier years, when products offered through payroll deduction were seldom reviewed and contracts were renegotiated only occasionally, since 1985 additions to or changes in coverage have occurred on an average of once per month. Employees are taking advantage of a genuine opportunity to shape the menu of insurance products to satisfy unique workforce needs. Vendors face a penalty for poor service or unreasonable rate increases that is more real than before. And while it would be naive to argue that product or vendor selection has been completely depoliticized, the risk of arbitrary selection made without regard to merit had been reduced substantially.

Participation

The percentage of employees from central payroll departments who voluntarily choose to purchase some form of insurance through payroll deduction is shown in Attachment III, (Employee Participation Percentage Chart). These range from a low of 50% to a high of 87%. The weighted average rate is 70%. Most observers would consider these participation rates impressive

testimony to the popularity of the program.

Equity

Among the concerns often expressed about the payroll deduction insurance purchasing program as now configured is "equity" among employees. Whether that concern is valid is to some degree a matter of definition. However, several characteristics of the system are relevant to any discussion.

First, because the system is decentralized and because the choice of products and providers is in the hands of an independent committee, employees in any agency have access to a different mix of products than their counterparts in another agency. In fact, because a committee is established for each payroll unit, an employee in a department with multiple payroll units -- like the Department of Human Resources (22 payroll units) -- will have different choices than others in that same department.

The situation is further complicated because employees who transfer from one payroll unit to another are entitled to keep via payroll deduction any insurance coverage obtained through their former department, while at the same time becoming eligible to participate in the additional offerings available through their new employer.

Second, actuarial circumstances differ among agencies, depending

upon the type of work, the age composition of the employee group, and agency size. For some types of insurance coverage, like disability policies, insurance companies may recognize these variations. The result is different prices for the same product, and employees working in a higher risk environment will pay higher premiums than their colleagues.

Thirdly, the market power of a Committee representing a large number of employees is greater than that of a Committee representing a smaller agency. That fact, along with actuarial considerations, means that larger payroll units may be able to obtain more favorable terms in the insurance market. Their employees are correspondingly advantaged.

Finally, the quality of products available in any particular agency is heavily dependent upon the performance of the Employee Insurance Committee. The Committees are selected by management, and aside from conflict of interest and political impartiality the only criterion for appointment is that members "fairly represent the work force." This gives no assurance that appointees will be professionally or technically qualified. Nor is there any provision to remove an appointee who fails his Committee duties. Employees represented by incompetent or disinterested Committees are unlikely to obtain the same benefits from the program as their peers in payroll units where Committees take their responsibility seriously.

Income of Participants

The request to conduct this study included reference to the income levels of employees purchasing insurance products. The average salary of employees purchasing insurance from each of the forty-one companies occupying payroll slots was computed, and that data for companies having five hundred or more enrollees is displayed in Attachment IV (Average Salary of Employees). Among the enrollments shown, the average salary per enrollment is \$26,565, somewhat higher than the FY 1993-94 average SPA employee salary of \$25,645. If there is a relationship between level of income and the demand for particular types of insurance coverage, that relationship is not apparent in the data examined here. The data does suggest, consistent with simple economics, that employees with higher salaries spend more for insurance products than those with lower salaries.

Recommendations

Experience since G.S. 58-31-60 was enacted in 1985 would seem to favor several modest changes. The following amendments would help those involved -- vendors, Employee Committees, and the Department of State Controller -- to discharge their responsibilities more effectively.

1. Establish a technical assistance program in the Department

of Insurance.

The Department of Insurance should be able to provide services of value to Employee Committees:

- a. recommended language to be used in bid specifications, invitations to bid, contracts for service, and marketing guidelines
- b. a central "library" of information about coverage offered by vendors who have participated in the program or have expressed an interest in doing so
- c. a source of reference regarding the meaning and application of relevant statutes and/or procedural requirements
- d. assistance with evaluation methodologies

Establish a vendor file in the Division of Purchase and Contract.

The absence of a common vendor list means that vendors do not have equal access to the market and that Employee Committees can circumvent the General Assembly's intent to foster a competitive marketing environment.

This defect could be cured by requiring that bid solicitations be sent to all companies registered in a central vendor file. The Division of Purchase and Contract could use the file to

accumulate basic business information on all companies requesting to be listed, including documentary evidence that the company is licensed to do business in North Carolina.

3. Make political appointees ineligible for membership on Employee Committees.

Notwithstanding the protections against political influence contained in the current statute, the appointment of high ranking policy-makers to sit on an Employee Committees, particularly to serve as chairperson of that Committee, colors perceptions of the bidding and selection process. Classified employees are sensitive to the power and influence wielded by politically appointed co-workers, especially those who occupy a high rank in the bureaucratic hierarchy. It is doubtful that Employees can be completely insulated from political factors, but this measure would eliminate one of the more direct sources of political intervention.

4. Determine the number of active payroll slots available for voluntary insurance deductions.

Currently, G.S. 58-31-60 statute specifies that a minimum of four slots shall be made available for insurance deductions. The Department of State Controller has recently raised that number to six. This important policy decision should be made by the General Assembly.

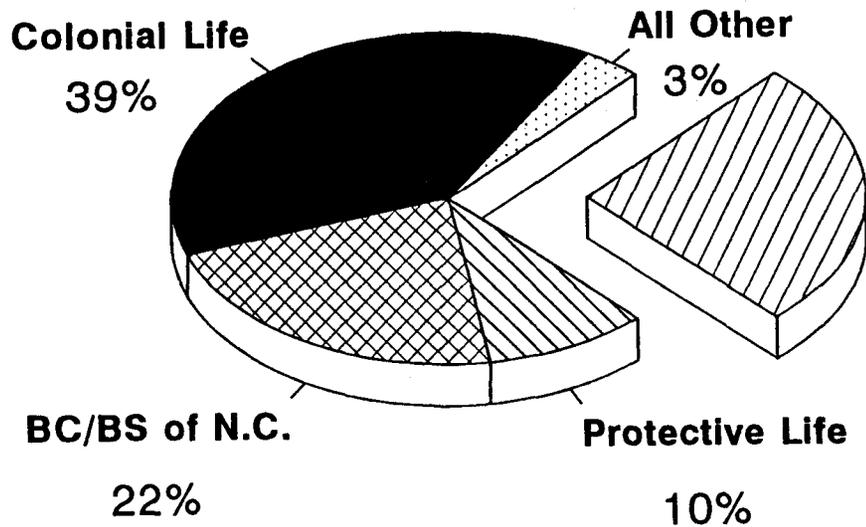
SURVEY RESULTS

<u>PAYROLL UNIT</u>	<u>COMMITTEE MEMBERS</u>	<u>STAGGERED TERMS</u>	<u>MEETINGS SINCE 1/92</u>	<u>WRITTEN SELECTION PROCEDURES</u>	<u>MARKETING GUIDELINES</u>	<u>THIRD PARTY EVALUATOR</u>	<u>MINUTES KEPT</u>	<u>PLANS OFFERED</u>	<u>PROVIDERS</u>	<u>COMMITTEE SELECTS PLANS</u>
ADMINISTRATION	7	no	2	no	no	no	yes	9	6	yes
ADMIN HEARINGS	5	yes	0	no	no	no	no	8	4	no
ADMIN OFF OF COURTS	7	yes	9	yes	yes	no	yes	10	5	yes
AGRICULTURE	10	yes	2	no	no	no	yes	11	4	yes
COMMERCE	6	no	4	yes	no	no	yes	7	4	yes
COMMUNITY COLLEGES	NO RESPONSE									
CORRECTION	NO RESPONSE									
CRIME CONTROL	7	yes	2	no	no	no	yes	9	3	yes
CULTURAL RESOURCES	7	yes	7	yes	no	no	yes	9	3	yes
EMPLOYMENT SECURITY	9	yes	3	no	no	no	yes	8	5	yes
ENVIR, HEALTH, NAT RES	6	yes	3	yes	yes	no	yes	5	4	yes
HUMAN RESOURCES										
Div Aging	5	no	5	yes	yes	no	yes	5	4	yes
Div Blind	0	no	0	no	no	no	no	5	3	no
Div Child Development	7	yes	0	no	no	no	no	11	3	yes
Div Deaf & Hard of Hearing	7	no	2	yes	no	no	yes	6	3	yes
Div Facility Service	7	yes	0	no	no	no	yes	11	3	yes
Div Medical Assistance	9	yes	5	no	no	no	yes	8	6	yes
Div Mental Health &	5	yes	1	yes	no	no	yes	5	4	yes
Black Mtn. Center	(Presently Developing Criteria)									
Broughton	9	yes	19	yes	yes	no	yes	8	8	yes
Butner	(Presently Reviewing Plans)									
Caswell Center	7	yes	7	yes	no	no	yes	4	4	yes
Cherry Hospital	9	yes	3	yes	no	no	yes	9	6	yes
Dorothea Dix Hospital	4	yes	7	yes	no	no	yes	13	6	yes
John Umstead Hospital	5	yes	5	no	no	no	yes	4	3	yes
Murdoch Center	9	yes	17	no	no	no	yes	4	3	yes
O'Berry Center	6	yes	7	yes	yes	no	yes	9	5	yes
Walter B Jones Center	5	yes	9	yes	no	no	yes	7	4	yes
Western Carolina	9	yes	4	no	no	no	yes	5	5	yes
Wilson Special Care	8	yes	5	yes	yes	no	no	5	4	yes

SURVEY RESULTS (Continued)

<u>PAYROLL UNIT</u>	<u>COMMITTEE MEMBERS</u>	<u>STAGGERED TERMS</u>	<u>MEETINGS SINCE 1/92</u>	<u>WRITTEN SELECTION PROCEDURES</u>	<u>MARKETING GUIDELINES</u>	<u>THIRD PARTY EVALUATOR</u>	<u>MINUTES KEPT</u>	<u>PLANS OFFERED</u>	<u>PROVIDERS</u>	<u>COMMITTEE SELECTS PLANS</u>
Div Social Services	9	yes	2	no	no	no	yes	5	3	yes
Div Vocational Rehab	8	yes	1	no	yes	no	yes	14	4	yes
Div Youth Services	6	yes	2	no	no	no	yes	9	5	yes
INSURANCE	9	yes	7	no	no	no	yes	10	4	yes
JUSTICE	5	N/A	1	no	no	no	no	7	7	yes
LABOR	NO RESPONSE									
PUBLIC INSTRUCTION	9	N/A	N/A	no	no	no	yes	17	14	yes
REVENUE	7	no	11	no	yes	no	yes	9	4	yes
RULES REVIEW	0	no	0	no	no	no	no	1	1	no
SECRETARY OF STATE	5	yes	5	no	no	no	yes	11	5	yes
STATE AUDITOR	INCOMPLETE RESPONSE									
STATE BUDGET AND MANAGEMENT	4	no	1	no	no	no	no	10	4	no
STATE CONTROLLER	NO RESPONSE									
STATE TREASURER	8	yes	4	no	no	no	yes	11	5	yes
TRANSPORTATION	9	no	8	yes	yes	no	yes	11	5	yes
WILDLIFE RESOURCES	0	no	0	no	no	no	no	12	4	no

ANNUALIZED PREMIUM PAYMENTS BASED ON MARCH 1994 CENTRAL PAYROLL



26%

American Pioneer Life
 Jefferson-Pilot Life
 Victory Life
 Investors Consol.
 American Family Life
 Bankers Sec. Life
 Commonwealth Nat.
 Life
 Pacific Mutual Life
 Peoples Security Life
 Kanawha Insurance
 Prudential Life
 United Services Life
 Loyal American

EMPLOYEE PARTICIPATION CHART

DEPARTMENT	EMPLOYEE COUNT	EMPLOYEES WITH INS. DEDUCTION	EMPLOYEE PARTICIP %
ADMINISTRATION	930	737	79%
ADMIN HEARINGS	33	25	76%
ADMIN OFF of COURTS	4,900	2,864	58%
AGRICULTURE	1,307	788	60%
COMMERCE	702	333	47%
COMMUNITY COLLEGES	197	162	82%
CORRECTION	13,803	10,089	73%
CRIME CONTROL	2,280	1,953	86%
CULTURAL RESOURCES	677	498	74%
EMPLOYMENT SECURITY	1,724	1,363	79%
ENVIR, HEALTH, NAT RES	4,084	2,273	56%
HUMAN RESOURCES			
Div Blind	456	244	54%
Div Child Developmen			
Div Deaf & Hard of H	615	466	76%
Div Facility Service	291	163	56%
Div Medical Assistan	251	172	69%
Div Mental Health &	265	143	54%
Black Mtn. Center	386	284	74%
Broughton	1,335	1,159	87%
Butner	89	62	70%
Caswell Center	1,745	1,342	77%
Cherry Hospital	1,160	879	76%
Dorothea Dix Hosp	1,220	1,010	83%
John Umstead Hosp	1,348	1,048	78%
Murdoch Center	1,538	1,211	79%
O'Berry Center	1,007	821	82%
Walter B Jones Ctr	95	77	81%
Western Carolina	1,026	847	83%
Wilson Special Car	248	207	83%
Div Social Services	674	424	63%
Div Vocational Rehab	1,040	712	68%
Div Youth Services	1,009	699	69%
INSURANCE	351	222	63%
JUSTICE	1,040	686	66%
LABOR	401	220	55%
PUBLIC INSTRUCTION	750	503	67%
REVENUE	1,257	821	65%
RULES REVIEW	4	2	50%
SECRETARY OF STATE	110	79	72%
STATE AUDITOR	156	97	62%
STATE BUDGET & MGT	53	36	68%
STATE CONTROLLER	298	213	71%
STATE TREASURER	240	169	70%
TRANSPORTATION			
WILDLIFE RESOURCES	484	276	57%

Information furnished by the State Controller's Office.

AVERAGE SALARY OF EMPLOYEES
PARTICIPATING IN VOLUNTARY INSURANCE PURCHASE
THROUGH CENTRAL PAYROLL
(BY ENROLLEE - APRIL 1994)

<u>Company</u>	<u>Enrollment</u>	<u>Average Salary</u>
PRUDENTIAL LIFE	1,024	34,340
AMERICAN FAMILY LIFE	1,590	33,279
PEOPLES SECURITY LIFE	1,216	32,811
JEFFERSON-PILOT LIFE	2,911	29,518
SAFECO LIFE	516	28,032
COMMONWEALTH NATIONAL LIFE	1,017	27,650
BC/BS OF NORTH CAROLINA	13,534	27,283
PACIFIC MUTUAL LIFE	1,024	27,278
AMERICAN PIONEER LIFE	2,969	26,947
COLONIAL LIFE AND ACCIDENT	21,898	25,854
LOYAL AMERICAN LIFE	574	25,539
VICTORY LIFE	3,501	24,978
KANAWHA	782	24,338
PROTECTIVE LIFE	4,661	23,852
BANKERS SEC LIFE INS SOC	1,238	22,945
INVESTERS CONSOLIDATED	1,909	22,548

OVERALL ENROLLMENT AVERAGE = 26,565
SPA AVERAGE FY 1993-94 = 25,645

Based on data furnished by
Department of State Controller

GS 58-31-60

§ 58-31-60. Competitive selection of payroll deduction insurance products paid for by State employees.

(a) Employee Insurance Committee. -- The head of each State government employee payroll unit offering payroll deduction insurance products to employees shall appoint an Employee Insurance Committee for the following purposes:

(1) To review insurance products currently offered through payroll deduction to the State employees in the Employee Insurance Committee's payroll unit to determine if those products meet the needs and desires of employees in the Employee Insurance Committee's payroll unit.

(2) To select the types of insurance products that reflect the needs and desires of employees in the Employee Insurance Committee's payroll unit.

(3) To competitively select the best insurance products of the types determined by the Employee Insurance Committee to reflect the needs and desires of the employees of that payroll unit.

(b) Appointment of Employee Insurance Committee Members. -- The members of the Employee Insurance Committee shall be appointed by the head of the payroll unit. The Committee shall consist of not less than five or more than nine individuals a majority of whom have been employed in the payroll unit for at least one year. The committee members shall, except where necessary initially to establish the rotation herein prescribed, serve three-year terms with approximately one-third of the terms expiring annually. Committee membership make-up shall fairly represent the work force in the payroll unit and be selected without regard to any political or other affiliations. It shall be the duty of the payroll unit head to assure that the Employee Insurance Committee is completely autonomous in its selection of insurance products and insurance companies and that no member of the Employee Insurance Committee has any conflict of interest in serving on the Committee. A committee on employee benefits elected or appointed by the faculty representative body of a constituent institution of The University of North Carolina shall be deemed constituted and functioning as an employee insurance committee in accordance with this section. Any decision rendered by the Employee Insurance Committee where the autonomy of the Committee or a conflict of interest is questioned shall be subject to appeal pursuant to the Administrative Procedure Act, or in the case of departments, boards and commissions which are specifically exempt from the Administrative Procedure Act, pursuant to the appeals procedure prescribed for such department, board or commission.

All payroll units in existence on May 21, 1985, shall continue to be deemed payroll units, regardless of any subsequent consolidation of such payroll units, for purposes of the appointment of the members of the Employee Insurance Committee in order to assure such units the continuing ability to meet the needs and desires of the employees of such units by having the right to select insurance carriers and insurance products. No

Employee Insurance Committee shall be created for employees represented by a previously existing committee. Any such duplicative Employee Insurance Committees are hereby disbanded. In the event of the consolidation of a payroll unit, the head of the former payroll unit shall appoint the members of the Committee in accordance with the provisions of this section.

(c) Payroll Deduction Slots. -- Each payroll unit shall be entitled to not less than four payroll deduction slots to be used for payment of insurance premiums for products selected by the Employee Insurance Committee and offered to the employees of the payroll unit. The Employee Insurance Committee shall select only one company per payroll deduction slot. The Company selected by the Employee Insurance Committee shall be permitted to sell through payroll deduction only the products specifically approved by the Employee Insurance Committee. The assignment by the Employee Insurance Committee of a payroll deduction slot shall be for a period of not less than two years unless the insurance company shall be in violation of the terms of the written agreement specified in this subsection. The insurance company awarded a payroll deduction slot shall, pursuant to a written agreement setting out the rights and duties of the insurance company, be afforded an adequate opportunity to solicit employees of the payroll unit by making such employees aware that a representative of the company will be available at a specified time and at a location convenient to the employees.

Notwithstanding any other provision of the General Statutes, once an employee has selected an insurance product for payroll deduction, that product may not be removed from payroll deduction for that employee without his or her specific written consent.

When an employee retires from State employment and payroll deduction under this section is no longer available, the insurance company may not terminate life insurance products purchased under the payroll deduction plan without the retiree's specific written consent solely because the premium is no longer deducted from payroll.

(c1) Procedure for Selection of Insurance Product Proposals. -- All insurance product proposals shall be sealed. The Committee shall open all proposals in public and record them in the minutes of the Committee, at which time the proposals become public records open to public inspection.

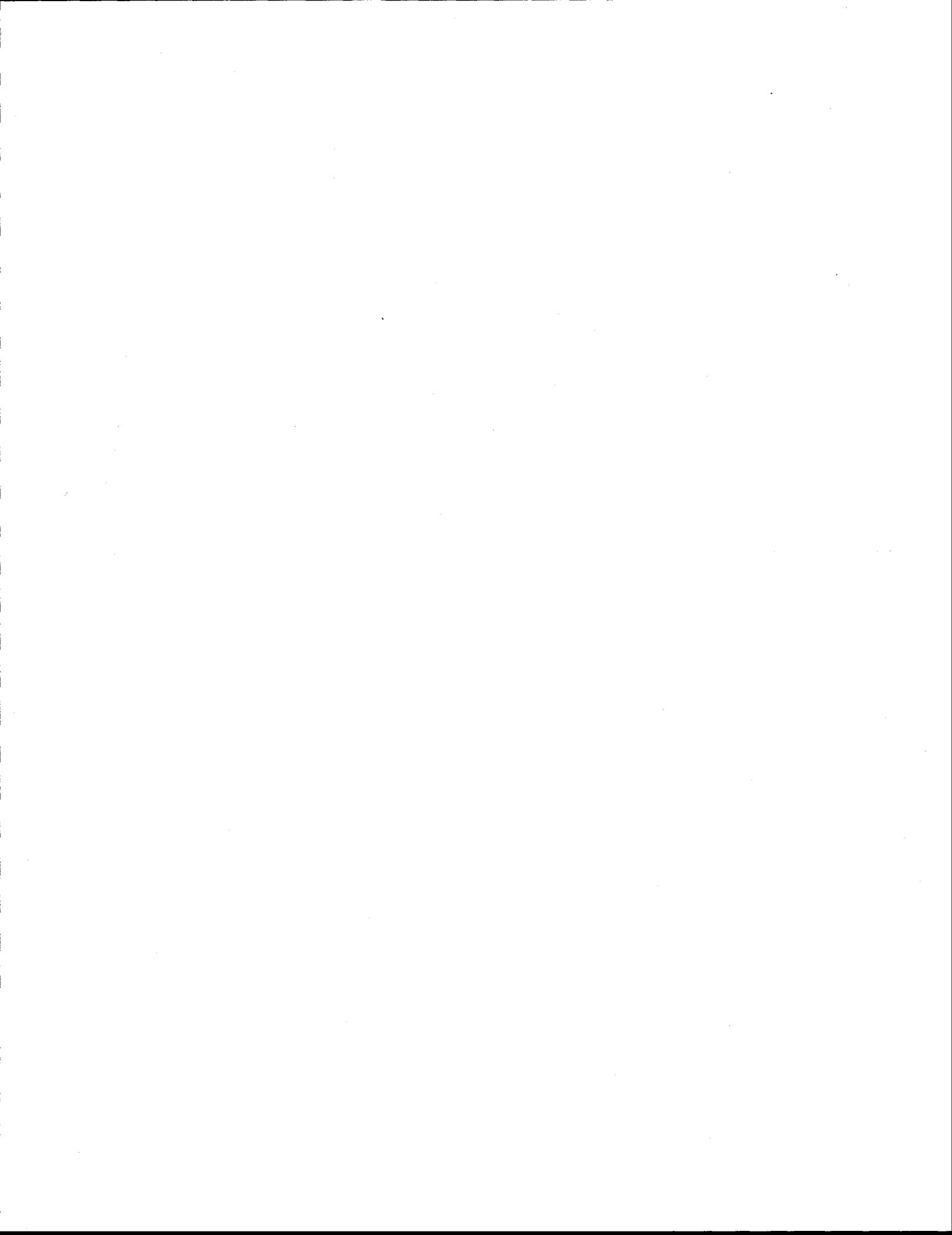
After the public opening, the Committee shall review the proposals, examining the cost and quality of the products, the reputation and capabilities of the insurance companies submitting the proposals, and other appropriate criteria. The Committee shall determine which proposal, if any, would meet the needs and desires of the employees of that Committee's payroll unit and shall award a payroll deduction slot to the company submitting the proposal that meets those needs and desires. The Committee may reject any or all proposals.

A company may seek to modify or withdraw a proposal only after the public opening and only on the basis that the proposal contains an unintentional clerical error as opposed to an error in judgment. A company seeking to modify or withdraw a proposal shall submit to the Committee a written request, with facts and evidence in support of its position, prior to the award of the

payroll deduction slot, but not later than two days after the public opening of the proposals. The Committee shall promptly review the request, examine the nature of the error, and determine whether to permit or deny the request.

(d) Criminal Penalty. -- It shall be a Class 3 misdemeanor for any State employee, who has supervisory authority over any member of the Employee Insurance Committee, to attempt to influence the autonomy of any Employee Insurance Committee either in the appointment of members to such Committee or in the operation of such Committee; or for anyone to open a sealed insurance product proposal or disclose or exhibit the contents of a sealed insurance product proposal, prior to the public opening of the proposal. The Commissioner of Insurance shall have the authority to investigate complaints alleging acts subject to the criminal penalty and shall report his findings to the Attorney General of North Carolina. (1985, c. 213, s. 1; 1985 (Reg. Sess., 1986), c. 1013, s. 15; 1987, c. 752, s. 12, c. 864, s. 92; 1989, c. 299; 1991, c. 644, s. 3.1; 1993, c. 539, s. 456; 1994, Ex. Sess., c. 24, s. 14(c).)

APPENDIX B





HARLAN E. BOYLES
STATE TREASURER

State of North Carolina
Department of the Treasurer

RECEIVED

OCT 11 1995

RESEARCH DIVISION STREET
Raleigh, North Carolina 27603-1385

October 10, 1995

The Honorable James B. Hunt, Jr.
Governor of North Carolina
State Capitol
Raleigh, North Carolina 27601

Dear Governor Hunt:

In response to your letter of August 29, 1995, I am pleased to submit to you our recommendations concerning supplemental insurance programs for State employees.

To respond to your request, an internal task force of senior administrators within the Department of State Treasurer conducted extensive study and interviews, compiling information covering all sides of the issue. This study was most revealing. While there may be some suspicion that political influence has been exerted in selecting insurance products, it is our strong belief that this is the exception rather than the rule.

It is our recommendation that the present system of supplemental insurance undergo significant changes in order to remove inequities and any perception of outside influence. Our recommendation is that the interests of State employees would be best served if a centralized committee evaluates and decides what products should be offered to every employee, especially since many supplemental insurance products can now be offered on a tax-favored basis. Some of these recommendations can be implemented by Executive Order, while others will require enabling legislation.

We stand ready to respond further to your request and to discuss these recommendations should you desire.

With all best wishes, I remain

Sincerely,

Harlan E. Boyles

State Employee Supplemental Insurance Programs
Outline of State Treasurer's Report
October 10, 1995

- I. Recommendations of State Treasurer**
 - A. Grandfather existing insurance contracts and policyholders**
 - 1. Leave existing contracts in force until scheduled expiration
 - 2. Allow current policyholders to maintain insurance or cancel
 - B. Abolish the current departmental insurance committees and repeal the provisions for departmental and university-based insurance products**
 - C. Create new centralized "Supplemental Insurance Benefits Committee"**
 - 1. Successor to the Flexible Benefits Committee, assuming that committee's duties and contractual relationships
 - 2. Products available for all employees of departments and universities
 - 3. Offer both tax-favored (I.R.S. Section 125) products and after-tax insurance products, as desired by employees
 - 4. Attorney General's office to provide legal counsel
 - 5. Composition of the board to be
 - a. Non-political and professional
 - b. Include representation from employees
 - c. Include persons with expertise in fiscal affairs and insurance
 - 6. Purchase and contract laws fully applicable to the committee and its actions, with open-to-public meetings
 - 7. Costs of administration to be paid from FICA savings
- II. Background for report**
 - A. Investigative process of study**
 - 1. Existing statutes
 - 2. Fiscal research study
 - 3. Office of State Personnel interim report
 - 4. Goals of Treasurer's task force
 - 5. Interviews
 - B. Current State employee supplemental insurance programs**
 - C. Task force findings**
 - 1. Current system unwieldy
 - 2. Experience and expertise of agency committees
 - 3. Selection criteria and their lack of conformity
 - 4. Varied product availability
 - 5. Price differences
 - D. Flexible Benefits Program**
 - 1. Establishment
 - 2. Role
 - 3. Impact on current supplemental insurance system

State Employee Supplemental Insurance Programs
The Report of the State Treasurer's Departmental Task Force
September 29, 1995

Background

Following suggestions of inadequate procurement and administrative practices within State agencies in providing supplemental insurance products for State employees, Governor Hunt, in a letter dated August 29, 1995 (Exhibit 1), requested that Treasurer Boyles examine the current system of supplemental insurance currently offered to State employees and make recommendations to him and the General Assembly as to how current practices could be changed to benefit employees and ensure integrity in the process. As used in this report, the phrase "supplemental insurance" refers to those insurance products that State employees voluntarily purchase through payroll deduction and are supplements to State-paid health, disability and life insurance coverages.

Treasurer Boyles formed an internal task force composed of Assistant State Treasurer Tom Campbell; Deputy Treasurer and Director of the Retirement Systems Division, Dennis Ducker and the Deputy Director of the Retirement Systems Division, Jack Pruitt. Treasurer Boyles gave the task force two admonitions:

- Make everything as simple as possible and provide equal opportunity and access to all employees. The issue at hand is not necessarily a question of inadequate insurance coverage for employees but rather one of procurement and administration. The task force was charged to be thorough in its investigation and analysis, while not unduly complicating the issue.
- Make recommendations to the Governor should be no later than October 10, 1995. The subject of employee supplemental insurance coverage is both important and timely and requires a response as quickly as possible.

The Investigative Process

The task force immediately secured the applicable statutes governing State employee supplemental insurance. G.S. 143-3.3 is the authorizing statute which allows State Employees to make certain payments through payroll deduction for the payment of premiums for life, hospital, medical, and disability insurance. In 1985, G.S. 58-31 et seq. (Exhibit 2) was enacted to establish an orderly process for selection and marketing supplemental insurance products.

The task force reviewed a study on the issue conducted by Dr. Lynn Muchmore of the Fiscal Research Division of the North Carolina General Assembly. His conclusions were presented to the Joint Legislative Commission on Governmental Operations in October, 1994, in a report entitled "Insurance Payroll Deduction" (Exhibit 3).

The Office of State Personnel had also done some investigation into the issue and had written an "Interim Report to the State Personnel Director" (Exhibit 4).

With this background, the task force developed a strategy by which to conduct further analysis and a framework in which this research could be summarized, conclusions drawn and a final report prepared.

The task force developed three objectives by which all recommendations should be measured:

- The ultimate goal is to ensure that State employees have available to them the best insurance coverage possible, offered uniformly at the lowest possible cost, purchased with pre-tax dollars when possible, and with the optimum service level;
- Any recommendations for change should attempt to remove the perception (or reality) of political influence or a closed provider/carrier selection process; and,
- The selection process should include persons with knowledge in insurance, legal and fiscal matters.

In his letter of August 29, 1995, Governor Hunt recommended a number of persons or agencies to involve in the investigatory process. The task force expanded that list to include personal interviews with the following:

The Governor's General Counsel - Brad Wilson
Attorney General's Office - Grayson Kelley
Department of Insurance - Commissioner Jim Long, Bill Hale, Ronnie Condrey,
Fran Dipasquantonio
Flexible Benefits Plan Coordinator - Carl Goodwin
Division of Purchase and Contracts - Barbara Stone Newton
Fiscal Research Staff - Dr. Lynn Muchmore
State Employees Association - Ed Little, Pat Brafford, and members of SEANC
Executive Committee
Insurance Agent - Gary Pendleton (at his request)
Insurance Agent - Wallace Hyde (at his request)
Insurance Agent - Doug Sutton (at his request)
Insurance Company Lobbyist - Glenn Jernigan (at his request)

The Current System

The 1985 statutes (GS 58-31 et seq.) state "...[T]he head of each State government employee payroll unit offering payroll deduction insurance products to employees shall appoint an Employee Insurance Committee... [to] competitively select the best insurance products of the types determined by the Employee Insurance Committee."

The statutes call for employee insurance committees to consist of at least five and no more than nine members, who shall serve three-year staggered terms, with the intent that at least one-third of the members' terms will expire annually. The committees should fairly represent the work force of the payroll unit and be selected without regard to any affiliations. These statutes were amended in 1994 to make it a Class 3 misdemeanor for any State employee who has supervisory authority to attempt to influence the autonomy of a committee, either through the selection of members or the process of selection.

Task Force Findings

The task force determined the following as a result of its research:

- The present committee system is unwieldy. The statutes call for insurance committees to be organized by payroll units. In the instance of the Department of Human Resources, there are some 23 different employee insurance committees within that agency. An estimated 75 to 100 committees exist across State agencies, which guarantees a lack of uniformity and availability of products and prohibits operating efficiencies.

Further, there is no one location one can go to find records of all employee insurance committees, their membership, insurance products available to employees, or other information which might be helpful, thus providing reassurance that the program is being administered in the best interests of the participating employees.

- Most insurance committees lack the experience and expertise necessary to make informed evaluations and selections of products. The degree of sophistication in the selection process varies widely across State agencies.

- Selection criteria for awarding contracts are either poorly defined or absent from most committees. The requirement for sealed bids on proposals is sometimes ignored.

- Because of the aforementioned lack of experience and expertise, coupled with poorly defined criteria for evaluation and selection of products, contracts are often awarded to those with whom the agency is already doing business or to those with whom the committees are most familiar.

- Product availability varies greatly across State agencies. Employees of some agencies have a full range of products available and some of these products may or may not be available to payroll units within the same agency or in different agencies. This raises a question of equity among employees.

- Prices of insurance products vary from agency to agency. In some instances this is because the product in one agency contains provisions not found in other agencies. Larger payroll units often have lower premium costs than smaller agencies. Many employees feel that since most all other benefits are distributed evenly to all employees, premium costs should be the same to all.

Flexible Benefits Program

As the task force researched the topic it became quite obvious that a major factor in any recommendation had to include the possible impact that the Flexible Benefits Program (FBP) might have on the current system or proposed changes.

The FBP was established by the Governor in Executive Order No. 66 in December, 1994. The goal of this program is to develop and maintain a competitive compensation and benefits package for all State employees.

The FBP establishes an IRS approved tax-favored supplemental insurance benefit plan. While this proposal has been many years in discussion, it now appears ready to begin offering employees supplemental insurance on a pre-tax basis beginning in

January, 1996. The initial program will include the current Dependent Care Assistance Plan (DCAP) and a new Health Care Assistance Plan (HCAP). A dental plan will be initially offered, but the FBP committee feels that it will only be a matter of months before additional products are available to employees.

In deciding how to select the best plan to offer employees, the FBP committee opted to retain a third party administrator (TPA) to develop requests for proposals and evaluate the various proposals submitted. After seeking proposals, the selection of the TPA was made on the basis of the committee's evaluation of the TPA's cost proposal and expertise in the field of insurance. The final selection of specific products offered to employees will be made by the FBP committee, after seeking input from the employee population.

The task force asked each interviewee their evaluation of the impact which the FBP will have on the current system of supplemental insurance programs. The respondents agreed that the superior advantage of tax-favored over after-tax payments of premiums for the same or similar coverage would likely result in most employees choosing the tax-favored approach offered by the FBP. Questions arose as to how long it would take the FBP to implement a full menu of plans and how effectively the program would be marketed.

The task force believes that the ultimate survivors will be those supplemental insurance plans which can be offered on a tax-favored basis. These plans will be offered by the FBP, since the Internal Revenue Code provides that only one plan can be implemented by an employer. It is likely that the current employee insurance committees will be left to choose those plans which are paid by employees in after-tax dollars. They will be fewer in number, less attractive and will probably generate fewer carriers/agents wishing to market and service these products.

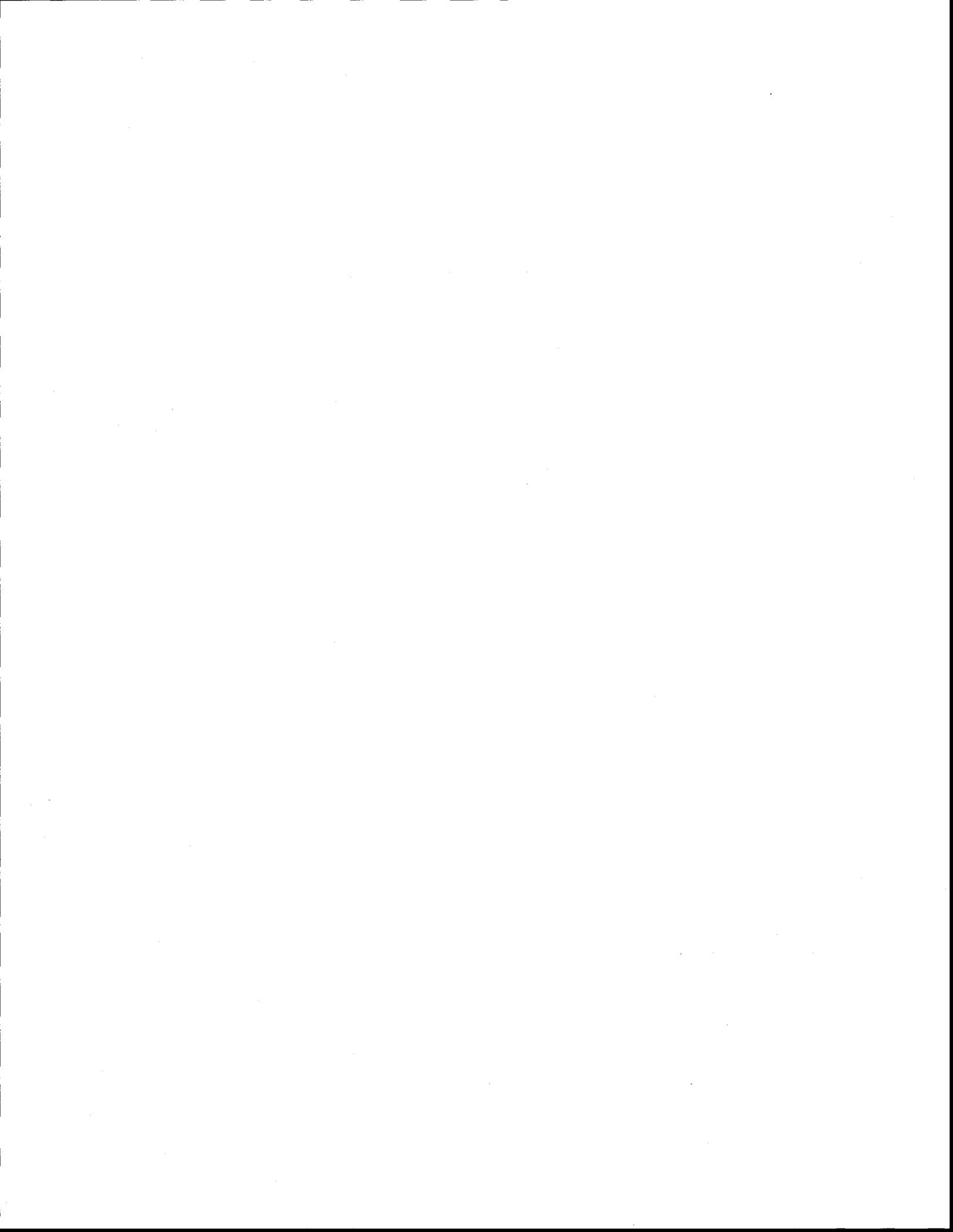
Whether the task force recommends change or not, the current system of supplemental insurance is due to change dramatically in the not-too-distant future. The fundamental question becomes how to best guide and implement that change.

Task Force Recommendation

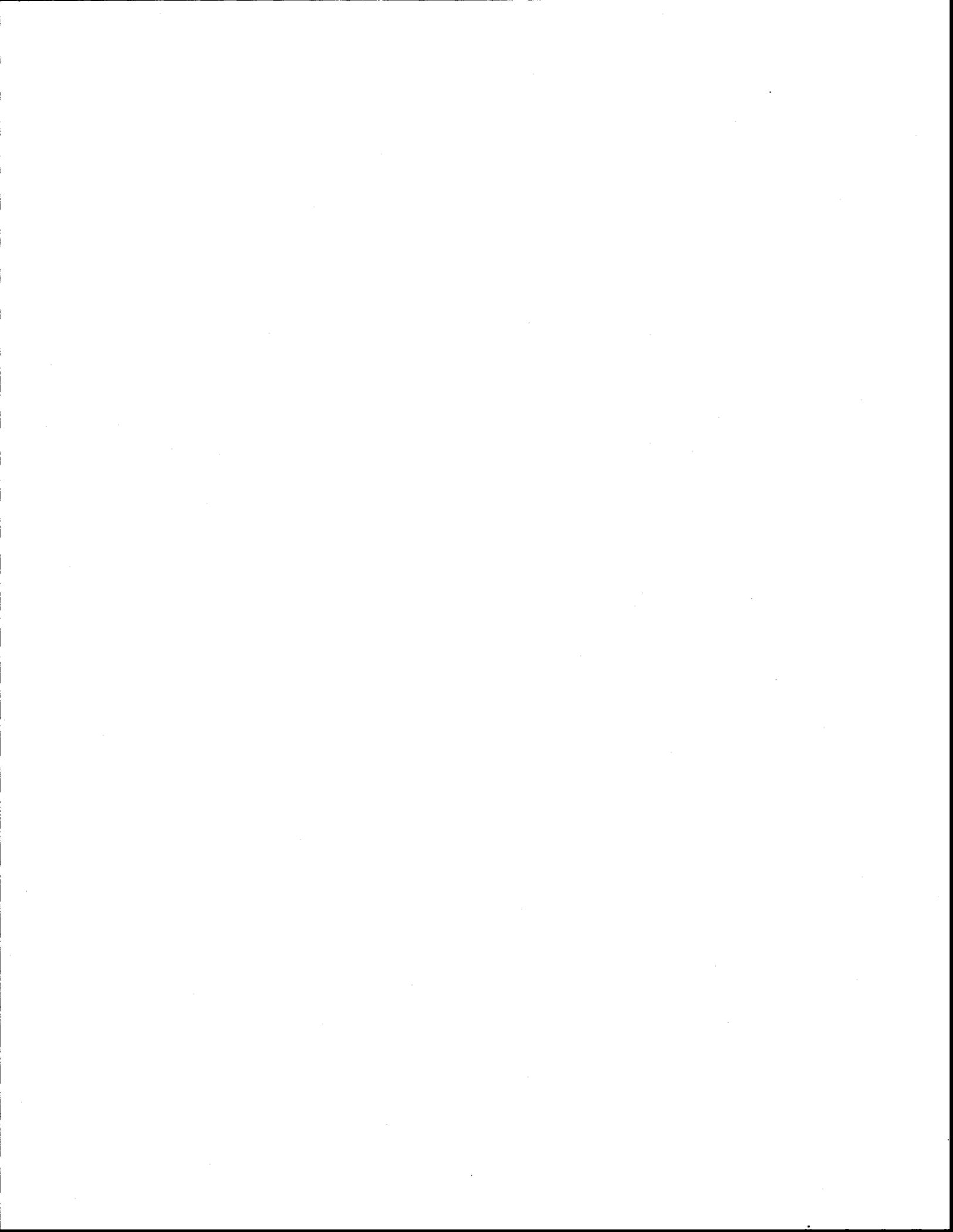
The following recommendations are made by the State Treasurer's task force. Some can be initiated by Executive Order and some of them will require legislation:

1. The current system of supplemental insurance should be changed, partially due to problems within the current system and partially because of the impact the FBP will have on the current system.
2. The current employee insurance committees should be phased out and ultimately abolished, effective when their current contracts expire or on a date certain. All existing contracts are considered legally binding; however, no new contracts should be initiated during the period. Carriers and/or agents currently providing coverage to individual payroll units should be allowed to continue soliciting and servicing employees for so long as their contracts are in effect. It should be stipulated that no contracts will be renewed and no new contracts should be negotiated by employee insurance committees.

3. Those companies with existing contracts should continue to provide coverage, after expiration of the current contracts, so long as employees wish to participate and premiums are paid. No employee should be required to cancel insurance currently in effect.
4. A new centralized committee should be formed to take over the current duties and responsibilities of existing employee insurance committees, upon expiration of existing contracts. The most logical choice for such a task would be to add those responsibilities to the Flexible Benefits Program committee, thus avoiding duplication and ensuring uniformity, promoting efficiency, as well as applying common sense to the issue.
5. The committee be renamed the Supplemental Insurance Benefits Committee and legislation be enacted to give it proper status and authority.
6. The make-up of the current FBP committee may need review and revision to reflect the increased responsibilities given it, however its membership should be kept reasonably small.
7. The committee should receive training so as to have a basic general understanding of insurance, procurement, legal, and fiscal matters with which it might deal.
8. Terms of appointed committee members should be clearly specified. Upon expiration, a committee member may be reappointed to one additional term.
9. The committee should be charged with the responsibility of requesting proposals from carriers/agents to provide coverage to employees within detailed specifications. The committee alone will be responsible for the final selection of products and/or services. A level playing field should be afforded all who wish to participate in the process.
10. The committee should be charged with the responsibility for developing a plan to market selected products to State employees, ensuring that all employees are informed of the products available and that they have ample opportunity to seek help in selecting products.
11. The committee should regularly review the program to ensure that employees are being well served by the products and those who are providing services.
12. At the expiration of each contract, a new request for proposal should be drafted and all products should be re-bid.
13. The costs to administer and compensate those who provide marketing, administration and other services should be paid by the savings enjoyed by the State as a result of reduced Social Security taxes paid on the wages of those employees who participate in tax-favored supplemental insurance products.



APPENDIX C



**THE
STATEWIDE**

NIC FLEX

FLEXIBLE

BENEFITS

PROGRAM

Pani Tademeti, Program Manager

STATEWIDE FLEXIBLE BENEFITS PROGRAM

EXECUTIVE SUMMARY

In June 1989, the N. C. General Assembly enacted House Bill 1129, ratified as Chapter 458, 1989 Session Laws, authorizing the establishment under Section 1129 of the IRS of four dependent care assistance programs...the public school system, community college system, University of North Carolina, and one for other departments in State government.

In July 1990, the General Assembly enacted House Bill 1314, ratified as Chapter 1059, 1989 Session Laws (Regular Session 1990), authorizing the establishment under IRS Section 125 of flexible compensation plans...again for the above mentioned four programs. In 1991, the General Assembly clarified the use of employer FICA savings to pay administrative costs of dependent care programs and flexible compensation programs with an expiration date of December 31, 1993. The 1993 General Assembly (1994 Short Session) made permanent, the provision allowing savings in employer FICA contributions to be used to pay for administrative expenses of flexible benefits plans with an expiration date of December 31, 1997.

The feasibility study conducted by Coopers and Lybrand (1993) suggested a single statewide flexible benefits program. The State Attorney General's Office recommendation to consolidate the four agency plans under a single statewide flexible benefits program, led to the appointment of an Interim Flexible Benefits Advisory Committee to design the program expansion of the Statewide Flexible Benefits Program.

On December 5, 1994, the Governor issued Executive Order #66. This order formalized a statewide flexible benefits coordination effort. It designated the central flexible benefits coordination for all State employees to the State Personnel Director, and established a Statewide Flexible Benefits Advisory Committee, to assist in the development and maintenance of the program. On October 27, 1995, a revised Executive Order #88 was issued, adding two more members from the private sector to the Committee.

From 1989 to 1995 the financial and payroll part of the Dependent Care Assistance Program (DCAP) was administered by the State Controller's office. There were approximately 700 employees participating in the program which was administered by a Third Party Administrator (TPA) "The Fringe Benefits Management Company". The TPA processes enrollment forms, payroll information, reimbursement requests, issues checks to employees, provides free customer service, and conducts discrimination testing, etc. The contract with Fringe Benefits expired December 31, 1995.

The Interim Flexible Benefits Advisory Committee has worked diligently in preparing the Request for Proposal (RFP) to select a TPA to administer employee claims from January 1, 1996. A mandatory preproposal conference was held on June 6, 1995 and approximately forty (40) representatives from various parts of the U. S. attended the conference, expressing their company's interest in conducting business with the State of North Carolina. Eleven offerors submitted proposals which were reviewed by the Statewide Flexible Benefits Advisory Committee.

Specific details of these and other major accomplishments follows:

Program Accomplishments

Marketing of the Statewide Flexible Benefits Program

The success of any Statewide Flexible Benefits Program is a direct result of employee education and the knowledge the benefits representative possesses about the program. To improve the understanding of the DCAP program, the division made a series of presentations to personnel representatives in the Department of Human Resources, Department of Environment, Health & Natural Resources, and the Office of State Personnel. To reach an even wider audience, presentations were made at the joint UNC and State Agency Benefits Network meetings. The feedback received from these presentations indicate that employees are interested in the Flexible Benefits Program and would like to see improvements in the program. The UNC/State Agency Benefits Network is an important component towards marketing the program, increasing participation levels, and in receiving feedback from the benefit representatives.

1995 Survey Results of DCAP Participants

To obtain the satisfaction levels of the current DCAP program, a survey was conducted and 61% of the participants responded to the survey. The results are:

	Satisfied	Dissatisfied	Unknown
Length of time in receiving check	66%	30%	4%
Quality of service by claims administrator	79%	12%	9%
Notification of account balance	88%	7%	5%
Understanding program materials	92%	6%	2%
Direct Deposit	80%	20%	0%

Southeastern States Survey

A survey was conducted of the flexible benefit programs offered by the Southeastern states. The results indicate the necessity for North Carolina to be more competitive in the marketplace, to retain and attract a talented workforce. (See chart below)

State	Premium Conversion	DCAP	Unreimbursed Medical	Other Benefits
Alabama	Yes	No	No	No
Arkansas*	Yes	Yes	Yes, \$2,000	Disability & Cancer
Florida**	Yes	Yes	Yes, \$2,400	Dental, Disability & Cancer
Georgia**	Yes	Yes	Yes, \$5,000	Dental, Disability, Life, Legal
Kentucky*	Yes	Yes	Yes, \$2,400	No
Missouri*	Yes	Yes	Yes, \$5,000	Dental & Term Life
North Carolina	Yes	Yes	No	No
Oklahoma*	Yes	Yes	Yes, \$2,400	Dental, Life & Disability
South Carolina*	Yes	Yes	Yes, \$2,400	No
Tennessee**	Yes	Yes	Yes, \$5,000	No
Virginia*	Yes	Yes	Yes, \$2,000	No
West Virginia*	Yes	Yes	Yes \$3,000	Dental, Vision, Disability

* Using TPA

**In-house Program

Program Enhancements

Effective January 1, 1996, the Statewide Flexible Benefits Program offers a Medical Spending Account and a Statewide Dental Plan in addition to the current DCAP program. This will give employees the chance to take advantage of paying for these additional benefits on a pre-tax basis.

The Full Committee

The Statewide Flexible Benefits Advisory Committee's membership (see below) includes representation from all the major departments in state government. The full committee has seventeen (17) members including Pani Tademeti, Program Manager. The Committee was instrumental in the selection of a Third Party Administrator and a Pre-Tax Dental Plan.

- Barwick, Allen _____ Budget & Management, State
- Cobb, Ann _____ Environment, Health & Natural Res.
- Comfort, Rosalyn _____ Community Colleges
- Brown, Ann _____ Public Instruction, Department of
- Fain, Michael _____ Human Resources, Department of
- Hicks, Robin _____ Transportation, Department of
- Lanning, Kristine _____ SEANC Justice/Consumer Protection
- McCollum, Kitty _____ General Administration, UNC
- Nance, Lars _____ Attorney General, Office of State
- Pruitt, Jack _____ Treasurer, Department of
- Rosch, Barry _____ Correction, Department of
- Waugh, Don _____ Controller, Office of State
- Terry, Evelyn _____ State Health Plan
- Wiggins, Margaret _____ Courts, Administrative Office of the
- Donald Tomberlin _____ Private Sector Representatives
- _____ Private Sector Representatives

Carrier Selections

Godwins Booke & Dickenson (GBD) was selected through the competitive bid process to administer the Dependent Care Assistance Program (DCAP) and Health Care Assistance Program (HCAP) which are also known as Flexible Spending Accounts. As a part of their service, they conduct annual open-enrollment employee meetings, distribute communication materials, process enrollment forms, payroll information, reimbursement request, issue checks to employees, provide customer service and conduct discrimination testing, COBRA administration. Additionally, GBD will assist in the procurement of supplemental insurance carriers for Phase II of the Program. GBD have offices in Winston-Salem, Raleigh and Charlotte.

The Statewide Flexible Benefits Advisory Committee, assisted by Godwins Booke & Dickenson (GBD) developed the details to implement Phase I of the program to become effective, January 1, 1996. Phase I of the program includes Dependent Care Assistance Program (DCAP) and Health Care Assistance Program (HCAP) along with a Voluntary Statewide Dental Program on a pre-tax basis. Employees have an option to participate in the Statewide Flexible Benefits Program. Employees who choose not to participate in the flexible benefits plan, retain the option of participating in individual agency post-tax insurance plans.

Voluntary Dental Plan

The Request for Proposal (RFP) for a Statewide Voluntary Dental Program was mailed to carriers/agents who wished to submit proposals to the State. The deadline for receiving the proposals was October 10, 1995.

Five companies made presentations to the Statewide Flexible Benefits Advisory Committee on October 18, 1995. Shenandoah Life Insurance Company and American Dental Plan of North Carolina was selected through the competitive bid process and offers an Indemnity and a Dental Maintenance Plan. As a part of their service, they conduct annual open-enrollment employee meetings, distribute communication materials, process enrollment forms, payroll information, reimbursement requests, issue checks to employees, provide customer service and conduct discrimination testing, COBRA administration. Shenandoah Life and American Dental Plan of North Carolina have offices in Cary, and Roanoke, Virginia.

Implementation

The Statewide Flexible Benefits Advisory Committee cognizant of the January 1, 1996, implementation date, worked vigorously with enrollment schedules and communication materials to conduct

employee enrollment meetings from November 8, 1995 to December 1, 1995. Employee meetings were scheduled throughout the State, in approximately 30 locations to allow employees the opportunity to attend these meetings. Also, "Train the Trainer" sessions were conducted from October 23, 1995 through October 27, 1995, at Elizabeth City, Granville, Raleigh, Winston-Salem, Charlotte, Pembroke and Asheville. The aim of these meetings was to familiarize benefit/personnel representatives with these programs, so that they can assist employees with their questions about these benefits. Approximately 450 Personnel/Benefit Representatives attended these training sessions. The last date for submitting enrollment forms to the benefits representative was December 6, 1995.

Communication Materials

Payroll stuffers, announcement letters and highlight brochures were mailed to all employees through the agency benefits representative, along with details of enrollment schedules and enrollment forms. Also,

agencies were provided with videos and transparencies to assist them with ongoing enrollments for new employees.

Legal Clarifications and Opinion

Three legal clarifications were sought from the Attorney General's office concerning the application of certain prohibitions contained in N.C. General Statute. 116-17.2 and 143-34.1(d) to the proposal that

includes a Medical Spending Account, Supplemental Life Insurance, Accidental Death and Dismemberment Insurance, on a pre-tax basis in the Statewide Employee Flexible Benefits Program. The advisory opinions were sought by (a) the State Personnel Director to clarify the confusion expressed of the medical spending accounts by (b) the General Counsel of The North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan and by (c) the Department of State Treasurer, Director of Retirement Systems Division.

The opinion of the Attorney General's office stated that: Benefits offered under the NC Flex Program will not duplicate medical benefits offered by the State Health Health Plan, nor duplicate the benefits offered by the Legislative Retirement System of North Carolina, the Teachers' and State Employees' Retirement System of North Carolina, the Teachers' and State Employees' Comprehensive Major Medical Plan, and the Disability Income Plan of North Carolina. This being so, the benefit options in NC Flex Program will not, in our opinion, violate the prohibition contained in N.C. GEN STAT. 116-17.2 and 143-34(d).

**NC Flex Enrollment
Details**

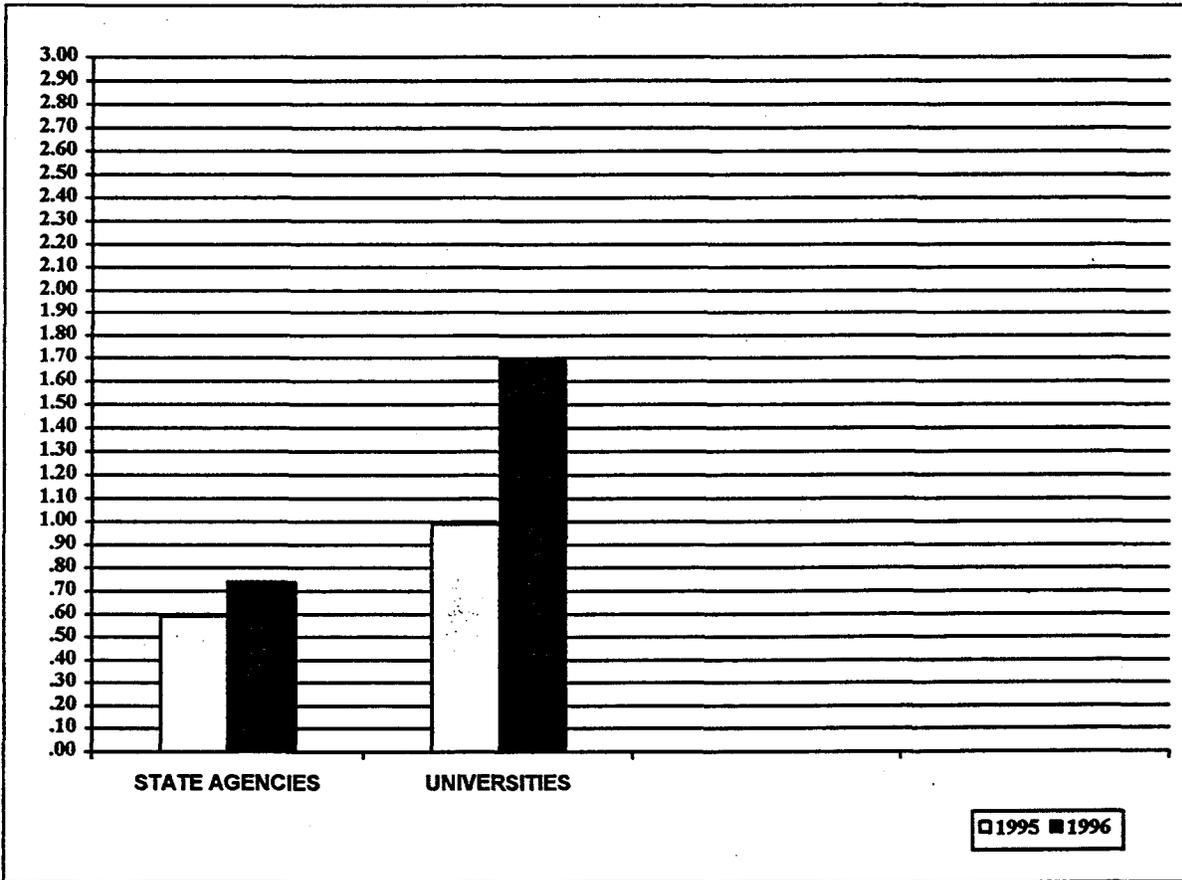
The following information includes the total enrollment for both spending accounts and the pre-tax dental plan as of January 1996, which reflects an 11 % participation rate for eligible state employees.

Health Care Participants	4,264	Dependent Care Participants	1,151
American Dental Traditional Participants	3,173	American Dental Managed Care Plan Participants	1,762

Detailed enrollment data by each Department/University is provided in attachments I & II of this report.

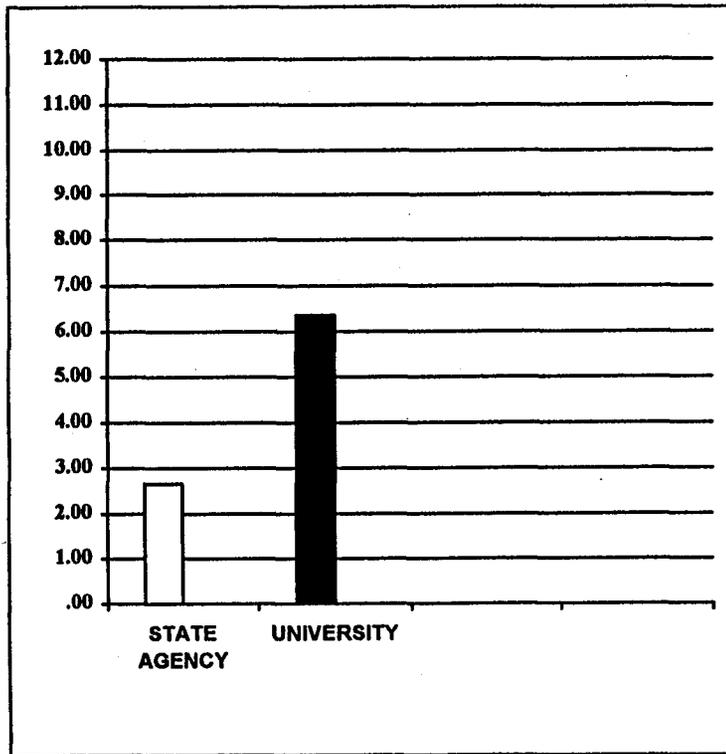
**Dependent Care
Participants**

The participant level in the 1995 DECAP program was approximately .59% for state agencies and .99% for universities. Employee participation in the 1996 DECAP program is .74% for state agencies and 1.69% for universities.



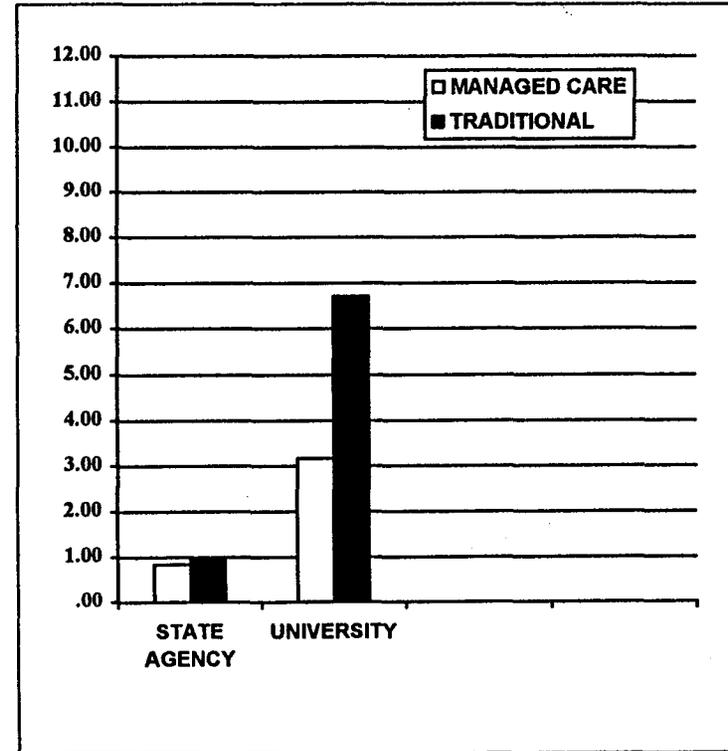
Detailed enrollment data by each Department/University is provided in attachments I & II of this report.

HEALTH CARE SPENDING ACCOUNT



Employee participation in the 1996 NC Flex Health Care Spending Account is 2.66% for state agencies and 6.36% for universities.

AMERICAN DENTAL ACCOUNTS



State Agency employee participation in the 1996 American Dental, Managed Care Plan is .85% and 1.00% for the Traditional Plan. University employee participation for Managed Care 3.16% and 6.72% for the Traditional Plan.

Future Expansions

Phase II of the Statewide Flexible Benefits Program will determine the need for additional supplemental benefits. Plans being reviewed include Group Life, Accidental Death & Dismemberment, Supplemental Disability Insurance, etc. A survey is being prepared to seek the input from benefit representatives and employees to assess the priority for the benefits to be included as part of the NC Flex. The Flexible Benefits Advisory Committee will soon start working out the details for Phase II of the Program including the request for proposals. Detailed enrollment data by each Department/University is provided in attachments I & II of this report.

**STATE OF NORTH CAROLINA NC FLEX PROGRAM
EMPLOYEE PARTICIPATION**

February 9, 1996

UNIT	STATE AGENCIES/UNIVERSITIES	NUMBER EMPLOYEES	OLD DCAP ENROLLEES	NC FLEX DEPENDENT CARE	NC FLEX HEALTH CARE	TOTAL EMPLOYEES ENROLLED	PERCENTAGE (%) PARTICIPATION
001	Crime Cont. & Pub Safety	2,654	7	11	27	34	1.28%
002	Administration/OSP	1,570	12	12	74	79	5.03%
003	Agriculture, Department of	1,366	10	14	39	44	3.22%
004	State Controller	385	10	18	44	56	14.55%
005	Cultural Resources/US Battleship (999)	676	8	10	52	56	8.28%
006	Elections, State Board	11	0	0	1	1	9.09%
007	Justice, Department of	1,104	14	24	74	78	7.07%
008	State Auditors Office	174	9	9	17	23	13.22%
014	Env. Hlth. & Nat. Res./Wildlife(056)	5,366	74	82	235	279	5.20%
015	Center for Applied Text Technology	25	0	0	3	3	12.00%
017	Community Colleges	154	0	2	6	8	5.19%
018	Public Instruction	610	15	9	25	30	4.92%
019	Commerce/ESC (020)	2,447	21	29	130	144	5.88%
024	Governor's, Office/Highway Program(021)/Budget(023)/Housing(022)	241	1	7	27	28	11.62%
029	Insurance	350	5	9	40	43	12.29%
032	Labor	422	4	8	53	53	12.56%
033	Correction	15,697	29	42	140	159	1.01%
035	Rules Review, Adm.	4	0	1	2	2	50.00%
037	Courts	5,004	20	32	113	131	2.62%
038	Hearings, Administrative	36	0	1	2	2	5.56%
046	Revenue	1,493	15	17	82	93	6.23%
048	Secretary of State, Office of	111	0	0	2	2	1.80%
51A-Z	Human Resources	17,818	78	102	435	491	2.76%
052	Treasurer, Office of the	229	4	4	32	35	15.28%
066	NC Psychology Board	4	0	1	0	1	25.00%
100	Assembly/Temps(806)Legislators(808)	166	0	10	22	24	14.46%
810	Transportation/Motor Vehicles (039)	13,337	49	78	229	269	2.02%
814	NC Ports Authority	305	0	0	6	6	1.97%
TOTAL AGENCY EMPLOYEES		71,759	385	532	1,912	2,174	3.03%

**STATE OF NORTH CAROLINA NC FLEX PROGRAM
EMPLOYEE PARTICIPATION**

February 9, 1996

UNIT	STATE AGENCIES/UNIVERSITIES	NUMBER EMPLOYEES	OLD DCAP ENROLLEES	NC FLEX DEPENDENT CARE	NC FLEX HEALTH CARE	TOTAL EMPLOYEES ENROLLED	PERCENTAGE (%) PARTICIPATION
060	UNC Asheville	492	6	15	61	65	13.21%
062	NC School of the Arts	289	7	7	4	10	3.46%
063	NC School of Math & Science	180	1	1	10	11	6.11%
085	Elizabeth City State University	384	1	2	11	11	2.86%
086	Fayetteville State University	575	2	6	25	29	5.04%
087	NC Central University	887	3	2	12	13	1.47%
088	NC A & T State University	1,234	5	6	27	30	2.43%
089	Pembroke State University	424	1	1	16	16	3.77%
092	Western Carolina University	1,028	3	8	75	78	7.59%
093	UNC Wilmington	1,065	10	11	67	70	6.57%
094	Winston-Salem State University	490	2	5	19	22	4.49%
800	Appalachian State University	1,558	7	19	214	215	13.80%
802	New River Light & Power	29	0	1	10	10	34.48%
804	East Carolina University	3,657	32	39	177	193	5.28%
812	UNC Hospitals	3,887	18	55	119	142	3.65%
816	NC State University	7,500	107	127	505	617	8.23%
818	UNC Chapel Hill/General Admin	9,396	103	236	582	731	7.78%
820	UNC Charlotte	1,757	14	34	207	221	12.58%
822	UNC Greensboro	1,652	20	41	173	184	11.14%
824	UNC Press	46	0	3	11	11	23.91%
TOTAL AGENCY EMPLOYEES		36,530	342	619	2,325	2,679	7.33%

STATE OF NORTH CAROLINA HEALTH PROGRAM
EMPLOYEE PARTICIPATION

February 9, 1996

UNIT	STATE AGENCIES/UNIVERSITIES	NUMBER EMPLOYEES	AMERICAN DENTAL MANAGED CARE	AMERICAN DENTAL TRADITIONAL	TOTAL EMPLOYEES ENROLLED	PERCENTAGE (%) PARTICIPATION
001	Crime Cont. & Pub Safety	2,654	15	19	34	1.28%
002	Administration/OSP	1,570	9	37	46	2.93%
003	Agriculture, Department of	1,366	15	20	35	2.56%
004	State Controller	385	20	19	39	10.13%
005	Cultural Resources/US Battleship (999)	676	8	16	24	3.55%
006	Elections, State Board	11	4	0	4	36.36%
007	Justice, Department of	1,104	10	35	45	4.08%
008	Auditors Office	174	8	11	19	10.92%
014	Env. Hlth. & Nat. Res./Wildlife(056)	5,366	39	28	67	1.25%
015	Center for Applied Text Technology	25	0	4	4	16.00%
017	Community Colleges	154	0	4	4	2.60%
018	Public Instruction	610	2	6	8	1.31%
019	Commerce/ESC (020)	2,447	45	21	66	2.70%
024	Governor's, Office Highway	241	17	11	28	11.62%
026	State Health Plan	11	0	1	1	9.09%
029	Insurance	350	10	16	26	7.43%
032	Labor	422	15	35	50	11.85%
033	Correction	15,697	34	38	72	0.46%
035	Rules Review, Adm.	4	0	0	0	0.00%
037	Courts	5,004	50	75	125	2.50%
038	Hearings, Administrative	36	0	0	0	0.00%
046	Revenue	1,493	50	44	94	6.30%
048	Secretary of State, Office of	111	2	0	2	1.80%
51A-Z	Human Resources	17,818	210	197	407	2.28%
052	Treasurer, Office of the	229	7	14	21	9.17%
066	NC Psychology Board	4	0	0	0	0.00%
100	Assembly/Temps(806)Legislators(808)	166	4	12	16	9.64%
810	Transportation/Motor Vehicles (039)	13,337	34	51	85	0.64%
814	NC Ports Authority	305	0	6	6	1.97%
TOTAL AGENCY EMPLOYEES		71,770	608	720	1,328	1.85%

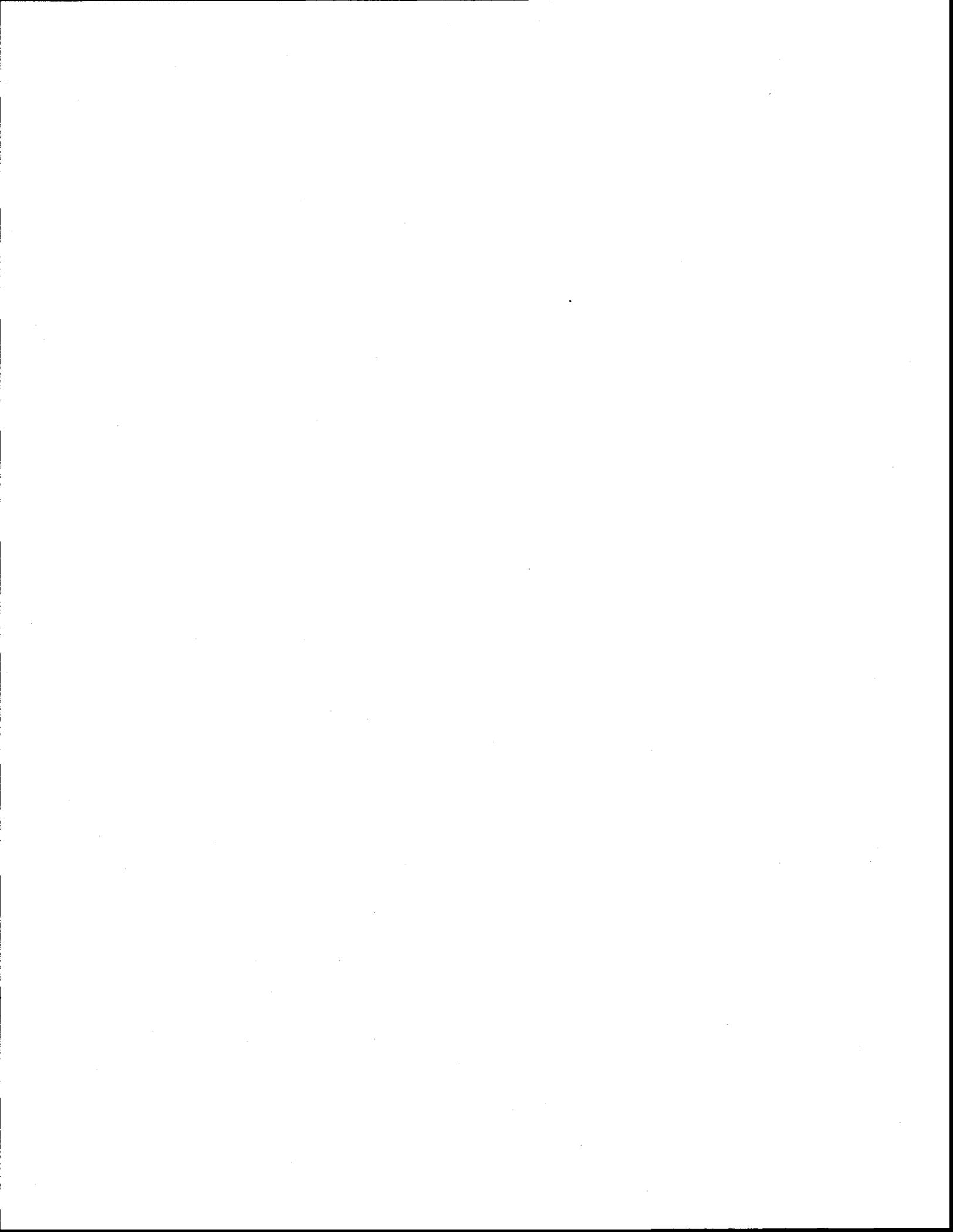
STATE OF NORTH CAROLINA NC FLEX PROGRAM
EMPLOYEE PARTICIPATION

February 9, 1996

UNIT	STATE AGENCIES/UNIVERSITIES	NUMBER EMPLOYEES	AMERICAN DENTAL MANAGED CARE	AMERICAN DENTAL TRADITIONAL	TOTAL EMPLOYEES ENROLLED	PERCENTAGE (%) PARTICIPATION
060	UNC Asheville	492	0	25	25	5.08%
062	NC School of the Arts	289	1	3	4	1.38%
063	NC School of Math & Science	180	2	4	6	3.33%
085	Elizabeth City State University	384	0	2	2	0.52%
086	Fayetteville State University	575	1	18	19	3.30%
087	NC Central University	887	2	2	4	0.45%
088	NC A & T State University	1,234	17	9	26	2.11%
089	Pembroke State University	424	0	9	9	2.12%
092	Western Carolina University	1,028	0	16	16	1.56%
093	UNC Wilmington	1,065	0	445	445	41.78%
094	Winston-Salem State University	490	2	7	9	1.84%
800	Appalachian State University	1,558	0	184	184	11.81%
802	New River Light & Power	29	0	5	5	17.24%
804	East Carolina University	3,657	5	178	183	5.00%
812	UNC Hospitals	3,887	28	52	80	2.06%
816	NC State University	7,500	834	1,080	1,914	25.52%
818	UNC Chapel Hill/General Admin	9,396	203	284	487	5.18%
820	UNC Charlotte	1,757	29	65	94	5.35%
822	UNC Greensboro	1,652	28	65	93	5.63%
824	UNC Press	46	2	0	2	4.35%
TOTAL AGENCY EMPLOYEES		36,530	1,154	2,453	3,607	9.87%



APPENDIX D



Senate Select Committee on State Employee Insurance Issues

Provided for consideration by the Office of State Personnel

Proposed Changes to Draft Bill Senate 96-RN-005:

Page 3 - Line 25 insert after Personnel, for all agencies electing to participate in the Statewide Supplemental Insurance Benefits Plan,

Page 4 - Line 30 insert after repealed, for all agencies electing to participate in the Statewide Supplemental Insurance Benefits Plan,

Proposed Changes to Draft Bill Senate 96-RN-005.2:

Page 1 - Line 6 Insert after the end of sentence a new sentence which reads Each agency shall offer the minimum supplemental insurance products (as determined by the Statewide Supplemental Insurance Benefits Plan) to its employees or shall be required to participate in the Statewide Supplemental Insurance Benefits Plan.

Page 1 - Line 9 insert after shall, either elect to participate in the Statewide Supplemental Insurance Benefits Plan or shall appoint an internal Employee....

4-18-96

Office of State Personnel issues relating to the two draft bills for consideration before the Senate Select Committee on State Employee Insurance Products:

Draft Bill (Senate 96-RN-005) recommends a single statewide insurance committee follows Treasurer's recommendations.

Pros:

- **Uniform benefits available to all State employees both in availability of product and in price.**
- **Employees who transfer from agency to agency will have option of keeping their benefits.**
- **Should give employees competitive edge on price of product due to bargaining position of large group versus small groups.**
- **Eliminate duplication of the selection and bidding process of numerous committees, thus a savings to the State.**
- **Provide one central location for coordination and data source of insurance products available to State employees.**

Cons:

- **Local decision authority may be reduced by central committee.**
- **The needs of diverse types of employees are better known to the local committees**

Draft Bill (Senate 96-RN-005.2) leaves the employee insurance committees intact but some provisions are made to improve the process.

Pros:

- **Local insurance committees serve the diverse needs of their department employees.**
- **The decision to select the products remain with the local committees.**

Cons:

- **Inequity in benefits both in price and products availability**
- **Employees with same benefit pay different premiums due to location, bargaining capacity and expertise of the committee.**
- **Employees who transfer from agency to agency will not have the option of keeping the same benefits.**

APPENDIX E





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Legislative Services Agency**

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April 11, 1996

MEMORANDUM

TO: Members of the Senate Select Committee on State Employee Insurance
Issues and Other Interested Parties

FROM: Linwood Jones, Staff Counsel 

RE: Draft Report and Recommendations

Enclosed please find a draft final report and draft recommendations for the Senate Select Committee on State Employee Insurance Issues. The report will be completed after the April 18th meeting to reflect the final action of the Committee at that meeting.

At the last meeting, I presented two drafts to the Committee:

- one that implemented the 1995 recommendations of the State Treasurer (abolishing the employee insurance committees and letting the Statewide Flexible Benefits Program take over their function), and
- one that made changes to the existing employee insurance committee system.

The draft implementing the Treasurer's recommendations (96-RN-005) is enclosed. The Treasurer's Office and the Attorney General's Office are reviewing this draft for potential changes. If they submit significant changes to me, I will try to send them out in advance.

The other draft, which retains but makes changes to the existing employee insurance committee system, has been revised. The revised draft (96-RNZ-005.2) is enclosed. The revisions address two issues that arose at the last meeting: (1) rebidding requirements and (2) how to deal with small State agencies when declaring political appointees ineligible for membership on the employee insurance committees. One issue that remains unresolved and which will be discussed at the April 18th meeting is whether



the Department of Human Resources' 23 employee insurance committees should be combined into a single committee for the entire Department.

Again, the two drafts represent two different philosophies on how to handle supplemental insurance. The Treasurer's recommendation abolishes the employee insurance committees in two years, at which time the current flexible benefits program would take over the task of providing supplemental insurance products for State employees. The other draft keeps the employee insurance committees, but makes several changes to how they operate.

Summaries of the Two Drafts

Draft 96-RN-005 (Based on the Treasurer's recommendations):

This draft would abolish the employee insurance committees effective July 1, 1998. Until that time, the employee insurance committees could not contract for new products nor could they renew existing products beyond that date. If an existing contract has an expiration date beyond July 1, 1998, the contract would be honored and not impaired by the State. However, if the contract has no expiration date and is terminable at the will or convenience of the employee insurance committee, it automatically expires June 30, 1998, unless terminated earlier by the insurance committee.

The Statewide Flexible Benefits Advisory Committee that currently administers the flexible benefits program for the State would be renamed the Supplemental Insurance Benefits Committee. With the abolition of the employee insurance committees on July 1, 1998, it would become responsible for selecting supplemental insurance products and insurance providers for all State employees. The selections would be made with assistance from the Office of State Personnel. Products would be reviewed to ensure that they continue to meet the needs of State employees and would be rebid periodically. Prepaid legal services would also be made available to State employees through this Committee.

Draft 96-RNZ-005.2 (Retain employee insurance committees):

This draft keeps the employee insurance committees, but makes the following changes. This is a revised version of the draft presented at the last meeting.

- (1) The first change prohibits "political appointees" from serving on the employee insurance committees. The term "political appointees" is used loosely here to refer to certain classes of officers and employees that the bill would prohibit from serving on employee insurance committees. Those that would be prohibited from serving on the committees are as follows:

- The confidential assistant and the two confidential secretaries for each department head and the one confidential secretary for each chief deputy or chief administrative assistant (G.S. 126-5(c)(2))
- Employees in policymaking positions that have been deemed exempt by the Governor, elected department heads, and the State Board of Education (G.S. 126-5(c)(3))
- The chief deputy or chief administrative assistant who acts for the department head in the absence or incapacity of the department head (G.S. 126-5(c)(4))
- The constitutional officers of the State (G.S. 126-5(c1)(1))
- Officers or employees whose salaries are fixed by the General Assembly, the Governor, the Governor and the Council of State, or by the Governor subject to the approval of the Council of State (G.S. 126-5(c1)(5)).

This was a recommendation to the Joint Legislative Commission on Governmental Operations. It would help guard against undue influence on the committee over the selection of a particular product.

The original draft I submitted at the prior meeting would have allowed political appointees to serve on the employee insurance committees to the extent necessary to obtain the statutory minimum of five employees on the committee. This exception was designed with smaller agencies in mind. I was asked to revisit this issue because there was concern that an agency might use this exception as a big loophole.

To address this problem, I would propose to simply exempt an agency payroll unit with less than 25 employees from the requirement. I propose that agencies this small also be exempted from the existing requirement that there be at least 5 and no more than 9 people on the Employee Insurance Committee. There are several agencies that only have about 5 to 10 employees in the entire agency (for example, the State Health Plan Office, the State Board of Elections, and the Administrative Rules Review Commission).

In order not to disrupt committees that already have persons that might be disqualified under this change, I would suggest making this change applicable as the current terms of the affected members expire (see Section 2 of the bill).

(2) The second change in this draft would require the Department of Administration to set up a central vendor registry. This registry would contain the names and contacts for all interested vendors and/or their agents as well as other information that an employee insurance committee might need. The employee insurance committee must contact those vendors (or agents) that are listed in the registry for any product for which the agency is seeking proposals. This eliminates the concern that only certain vendors and agents might be contacted by an agency seeking proposals. The employee insurance committee, not the Department of Administration, is responsible for contacting those listed on the registry.

(3) The third change imposes a similar central reporting requirement for the employee insurance committees. Each employee insurance committee will report information to the Department of Administration, such as the Committee membership and their terms, the products the Committee has under payroll deduction, when those products were last bid, etc. There are several reasons for collecting this information:

- Over the past several years, the legislative staff has been asked at least three times to survey agencies about their supplemental insurance products. The Governor's Office also surveyed agencies last year on their products. It would be more productive to go ahead and collect this information in a central repository so that it will be available when the need arises to review the supplemental insurance market again. I assume this need will surface again within the next year or two as members of the General Assembly and others want to see the impact of the flexible benefits program on the employee insurance committee program, especially if the flex plan begins offering additional supplemental insurance coverages.
- With information available from a central source, employee insurance committees can more readily compare the types of products other payroll units have and the prices on those products.
- Requiring reporting on contract re-evaluation (see discussion in (5) below) ensures that committees continue to seek the input of their employees and to survey the market for product availability.

(4) The fourth change requires the Department of Insurance to provide technical assistance to employee insurance committees on evaluating insurance products. This must be done "within available funds." The purpose of the "within available funds" language is both to emphasize that no new funding for the Department is contemplated for this duty and to signal to the insurance committees that the Department has limited resources for assisting them. Although the draft does not expressly require it, perhaps the Department of Administration and the Department of Insurance, working with experienced employee insurance committee personnel, can jointly develop a handbook that will help guide the employee insurance committees in seeking proposals, bidding, and evaluating products.

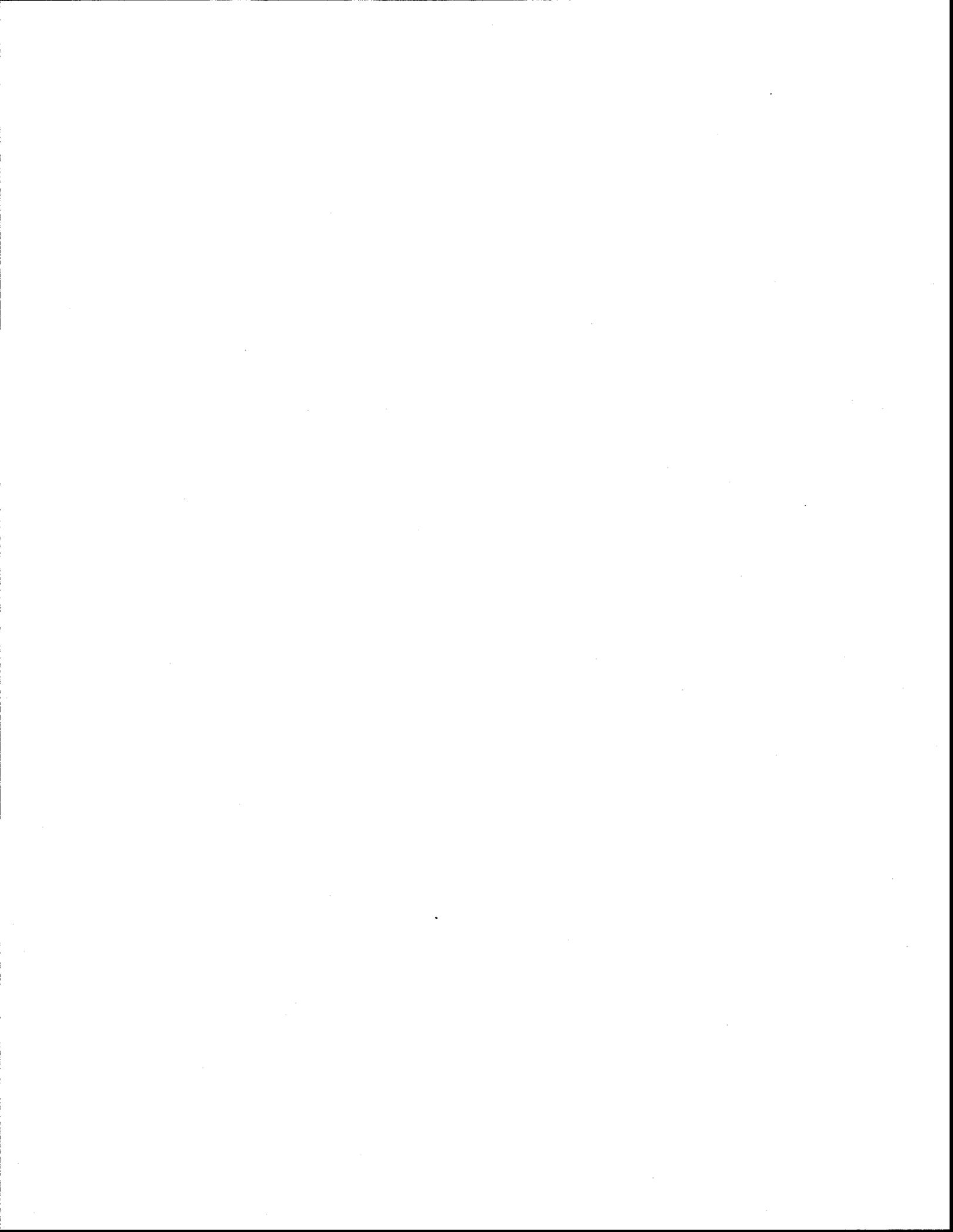
The technical assistance program addresses criticisms that some of the employee insurance committees are not as well versed as others in bidding and product evaluation.

(5) The fifth change addresses the issue of "rebidding." Although the law requires products first offered after 1985 to be competitively bid, it is silent on whether and when products should be rebid. The law does provide general guidance that the insurance products must reflect the "needs and desires" of their employees; thus, a product should be rebid when it no longer reflects those needs and desires.

At the previous meeting, the Committee recommended adding specific language to require products to be rebid once every three years. In discussing this proposal since that meeting, I have found that requiring rebidding could cause several problems. First, an agency's employees may be very satisfied with the insurance products they already have. Second, on a policy such as a disability policy, a new carrier may want to impose a waiting period for preexisting conditions on employees who have already satisfied the waiting periods under their existing policies. Although these employees may be able to retain their existing insurance through "inactive" payroll slots, I am not certain that the insurance carrier would continue to provide this coverage to these employees, at least not at the same rates. The carrier is being left with the higher risks, while the better risks obtain coverage from the new carrier. Third, rebidding can be expensive in terms of both the dollars spent on formal advertising for bids and the time invested by State employees serving on these committees.

My suggestion is to instead require that each committee re-evaluate its products at least once every three years and that those products be rebid unless the Committee finds that they continue to meet the needs and desires of the agency's employees. Information on the Committee's three-year evaluation and the results thereof must be disclosed to the Department of Administration.

If you have questions or comments, please feel free to contact me at (919) 733-2578.



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1995

DRAFT D

S

Senate 96-RN-005
THIS IS A DRAFT 12-APR-96 13:44:59

Short Title: Supplemental Insurance Benefits (Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO IMPLEMENT THE RECOMMENDATIONS OF THE STATE TREASURER
3 CONCERNING EMPLOYEE SUPPLEMENTAL INSURANCE BENEFITS.
4 The General Assembly of North Carolina enacts:
5 Section 1. G.S. 143-34.1 reads as rewritten:
6 "§ 143-34.1. (Effective until December 31, 1997) Positions
7 included in the State's payroll must be approved by the Director
8 of Budget; payment of benefits and other salary-related items
9 must be made from same source as salary; dependent care
10 assistance program authorized; flexible compensation benefits
11 authorized.
12 (a) Before a department, institution, or other agency of State
13 government establishes a new position or changes the funding of
14 an existing position, the agency must submit the proposed action
15 to the Director for approval. The Director shall review the
16 proposed action to ensure that it is within the amount
17 appropriated to the agency. If the Director approves the action,
18 the Director shall notify the agency and the State Controller of
19 the approval. The State Controller may not honor a voucher in
20 payment of a payroll that includes a new position or a change in
21 an existing position that has not been approved by the Director.

1 (b) Required employer salary-related contributions for
2 retirement benefits, death benefits, disability salary
3 continuation and Social Security for employees whose salaries are
4 paid from general fund or highway fund revenues, or from
5 department, office, institutional or agency receipts, or from
6 nonstate funds, shall be paid from the same source as the source
7 of the employees' salaries. In those instances in which an
8 employee's salary is paid in part from the general fund, or the
9 highway fund, and in part from the department, office,
10 institutional or agency receipts, or from nonstate funds, the
11 required salary-related contributions shall be paid from the
12 general fund, or the highway fund, only to the extent of the
13 proportionate part paid from the general fund, or highway fund,
14 in support of the salary of such employee, and the remainder of
15 the employer's contribution requirements shall be paid from the
16 same source which supplies the remainder of such employee's
17 salary. The requirements of this section as to the source of
18 payment are also applicable to payments on behalf of the employee
19 for hospital-medical insurance, longevity payments, salary
20 increments, and legislative salary increases. The State
21 Controller shall approve the method of payment by State
22 departments, offices, institutions and agencies for employer
23 salary-related requirements of this section, and determine the
24 applicability of the section to an employer's salary-related
25 contribution or payment in behalf of an employee.

26 (c) The Director of the Budget is authorized to provide
27 eligible officers and employees of State departments,
28 institutions, and agencies not covered by the provisions of G.S.
29 116-17.2 a program of dependent care assistance as available
30 under Section 129 and related sections of the Internal Revenue
31 Code of 1986, as amended. The Director of the Budget may
32 authorize State departments, institutions, and agencies to enter
33 into annual agreements with employees who elect to participate in
34 the program to provide for a reduction in salary. Should the
35 Director decide to contract with a third party to administer the
36 terms and conditions of a program of dependent care assistance,
37 he may select a contractor only upon a thorough and completely
38 competitive procurement process.

39 (d) Notwithstanding any other provisions of law relating to
40 the salaries of officers and employees of departments,
41 institutions, and agencies of State government, the Director of
42 the Budget is authorized to provide a plan of flexible

1 compensation to eligible officers and employees of State
2 departments, institutions, and agencies not covered by the
3 provisions of G.S. 116-17.2 for benefits available under Section
4 125 and related sections of the Internal Revenue Code of 1986 as
5 amended. This plan shall not include those benefits provided to
6 employees and officers under Article 1A of Chapter 120 of the
7 General Statutes and Articles 1, 3, 4, and 6 of Chapter 135 of
8 the General Statutes nor any vacation leave, sick leave, or any
9 other leave that may be carried forward from year to year by
10 employees as a form of deferred compensation. In providing a
11 plan of flexible compensation, the Director of the Budget may
12 authorize State departments, institutions, and agencies to enter
13 into agreements with their employees for reductions in the
14 salaries of employees electing to participate in the plan of
15 flexible compensation provided by this section. Should the
16 Director of the Budget decide to contract with a third party to
17 administer the terms and conditions of a plan of flexible
18 compensation as provided by this section, it may select such a
19 contractor only upon a thorough and completely advertised
20 competitive procurement process.

21 (e) The Statewide Flexible Benefits Advisory Committee
22 established by Executive Order 66, as amended by Executive Order
23 88, is hereby recreated and renamed the Supplemental Insurance
24 Benefits Committee. The Committee shall evaluate and select,
25 with the assistance of the Office of State Personnel, all
26 products provided pursuant to the flexible benefits program
27 established under this section and shall perform such other
28 duties as may be assigned by the director of the budget.
29 Products shall be selected through competitive bidding and shall
30 be rebid periodically.

31 The director of the budget shall ensure that members of the
32 Committee are afforded appropriate training with respect to the
33 evaluation and selection of supplemental insurance products. The
34 Committee shall periodically review the flexible benefits program
35 to determine if the products are meeting the needs of employees.

36 The Committee may also provide for and contract for, on behalf
37 of officers and employees of the State agencies, institutions,
38 and departments prepaid legal services plans registered under
39 G.S. 84-23.1."

40 Sec. 2. G.S. 116-17.2 reads as rewritten: "§ 116-17.2.
41 (Effective until December 31, 1997) Flexible Compensation Plan.

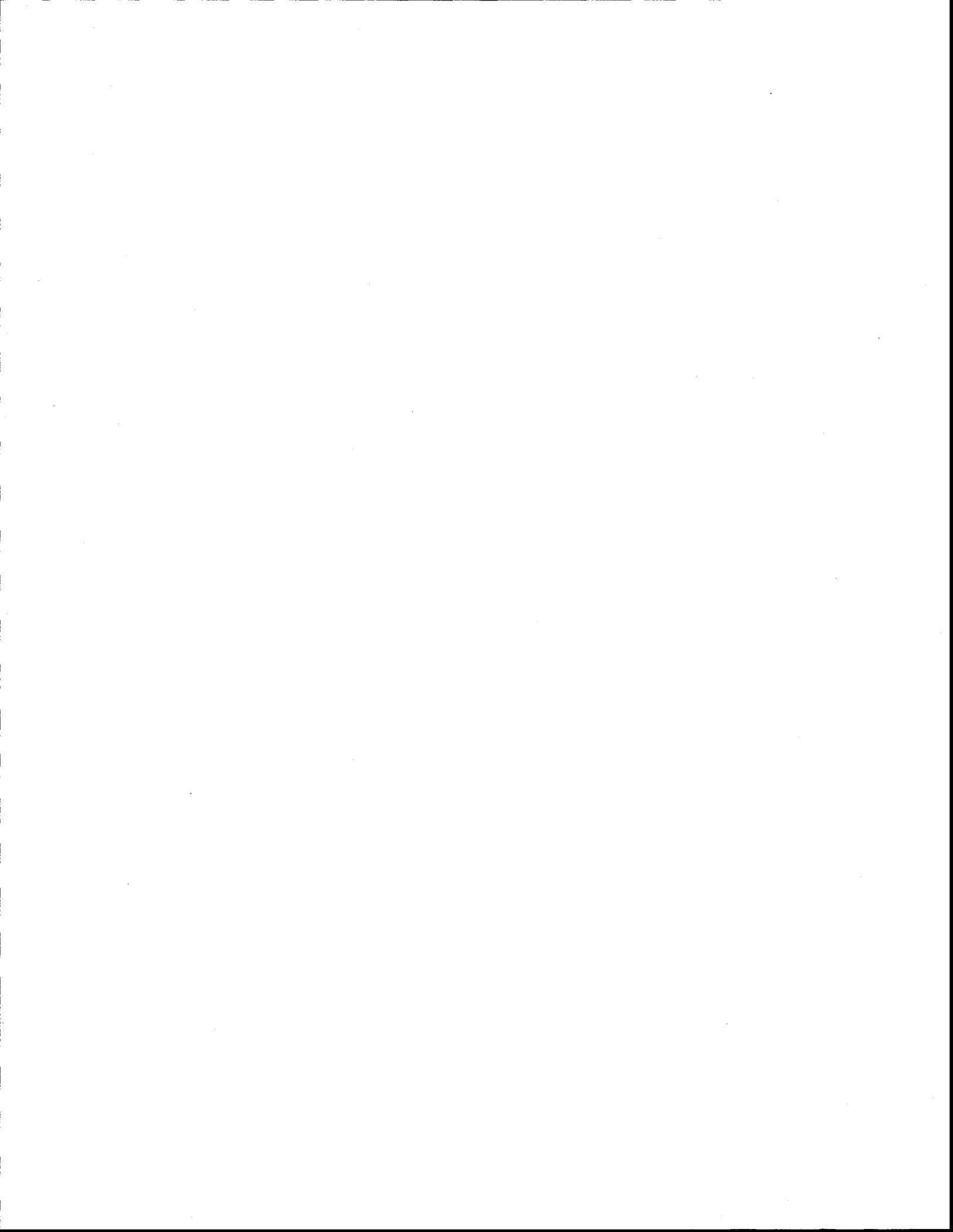
1 Notwithstanding any other provisions of law relating to the
2 salaries of employees of The University of North Carolina, the
3 Board of Governors of The University of North Carolina is
4 authorized to provide a plan of flexible compensation to eligible
5 employees of constituent institutions for benefits available
6 under Section 125 and related sections of the Internal Revenue
7 Code of 1986 as amended. This plan shall not include those
8 benefits provided to employees under Articles 1, 3, and 6 of
9 Chapter 135 of the General Statutes nor any vacation leave, sick
10 leave, or any other leave that may be carried forward from year
11 to year by employees as a form of deferred compensation. In
12 providing a plan of flexible compensation, the Board of Governors
13 may authorize constituent institutions to enter into agreements
14 with their employees for reductions in the salaries of employees
15 electing to participate in the plan of flexible compensation
16 provided by this section. With the approval of the Director of
17 the Budget, savings in the employer's share of contributions
18 under the Federal Insurance Contributions Act on account of the
19 reduction in salary may be used to pay some or all of the
20 administrative expenses of the program. Should the Board of
21 Governors decide to contract with a third party to administer the
22 terms and conditions of a plan of flexible compensation as
23 provided by this section, it may select such a contractor only
24 upon a thorough and completely advertised competitive procurement
25 process.

26 The Board of Governors may also provide for and authorize its
27 constituents institutions to contract for prepaid legal services
28 plans registered under G.S. 84-23.1 for their employees."

29 Sec. 3. Effective July 1, 1998, G.S. 58-31-60 is
30 repealed and all employee insurance committees are abolished.
31 After the date of ratification of this act, an employee insurance
32 committee shall not contract for any new insurance product, nor
33 shall it renew any existing product for a term beyond June 30,
34 1998. This act does not impair the validity of contracts entered
35 into prior to the date of ratification of this act that expire on
36 or after July 1, 1998, provided that any contract terminable at
37 the will or convenience of the employee insurance committee shall
38 expire, unless terminated earlier, on June 30, 1998. An insurer
39 providing life insurance to an employee through payroll deduction
40 under G.S. 58-31-60 prior to July 1, 1998, may not terminate that
41 coverage, without the employee's consent, solely because the

1 premium is no longer deducted from payroll on or after July 1,
2 1998.

3 Sec. 4. Section 1 of this act becomes effective July 1,
4 1998. The remainder of this act is effective upon ratification.



DRAFT

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1995

S

D

Senate 96-RN~~F~~-005.2
THIS IS A DRAFT 12-APR-96 13:44:37

Short Title: Supplemental Insurance Benefits (Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE LAWS GOVERNING EMPLOYEE INSURANCE COMMITTEES.
3 The General Assembly of North Carolina enacts:
4 Section 1. G.S. 58-31-60 reads as rewritten:
5 "§ 58-31-60. Competitive selection of payroll deduction
6 insurance products paid for by State employees.
7 (a) Employee Insurance Committee. -- The head of each State
8 government employee payroll unit offering payroll deduction
9 insurance products to employees shall appoint an Employee
10 Insurance Committee for the following purposes:
11 (1) To review insurance products currently offered
12 through payroll deduction to the State employees in
13 the Employee Insurance Committee's payroll unit to
14 determine if those products meet the needs and
15 desires of employees in the Employee Insurance
16 Committee's payroll unit.
17 (2) To select the types of insurance products that
18 reflect the needs and desires of employees in the
19 Employee Insurance Committee's payroll unit.
20 (3) To competitively select the best insurance products
21 of the types determined by the Employee Insurance

1 Committee to reflect the needs and desires of the
2 employees of that payroll unit.

3 As used in this section, "insurance product" includes a prepaid
4 legal services plan registered under G.S. 84-23.1.

5 (b) Appointment of Employee Insurance Committee Members. --
6 The members of the Employee Insurance Committee shall be
7 appointed by the head of the payroll unit. ~~The Committee shall~~
8 ~~consist of not less than five or more than nine individuals a~~
9 ~~majority of whom have been employed in the payroll unit for at~~
10 ~~least one year.~~ The committee members shall, except where
11 necessary initially to establish the rotation herein prescribed,
12 serve three-year terms with approximately one-third of the terms
13 expiring annually. Committee membership make-up shall fairly
14 represent the work force in the payroll unit and be selected
15 without regard to any political or other affiliations. For a
16 payroll unit of more than twenty-five employees:

17 (i) the Committee shall consist of not less than five
18 or more than nine individuals, a majority of whom
19 have been employed in the payroll unit for at least
20 one year, and

21 (ii) employees designated in G.S. 126-5(c)(2), (3), and
22 (4) and G.S. 126-5(c1)(1) and (5) are ineligible
23 for membership on the Committee.

24 It shall be the duty of the payroll unit head to assure that
25 the Employee Insurance Committee is completely autonomous in its
26 selection of insurance products and insurance companies and that
27 no member of the Employee Insurance Committee has any conflict of
28 interest in serving on the Committee. A committee on employee
29 benefits elected or appointed by the faculty representative body
30 of a constituent institution of The University of North Carolina
31 shall be deemed constituted and functioning as an employee
32 insurance committee in accordance with this section. Any decision
33 rendered by the Employee Insurance Committee where the autonomy
34 of the Committee or a conflict of interest is questioned shall be
35 subject to appeal pursuant to the Administrative Procedure Act,
36 or in the case of departments, boards and commissions which are
37 specifically exempt from the Administrative Procedure Act,
38 pursuant to the appeals procedure prescribed for such department,
39 board or commission.

40 All payroll units in existence on May 21, 1985, shall continue
41 to be deemed payroll units, regardless of any subsequent
42 consolidation of such payroll units, for purposes of the

1 appointment of the members of the Employee Insurance Committee in
2 order to assure such units the continuing ability to meet the
3 needs and desires of the employees of such units by having the
4 right to select insurance carriers and insurance products. No
5 Employee Insurance Committee shall be created for employees
6 represented by a previously existing committee. Any such
7 duplicative Employee Insurance Committees are hereby disbanded.
8 In the event of the consolidation of a payroll unit, the head of
9 the former payroll unit shall appoint the members of the
10 Committee in accordance with the provisions of this section.

11 (c) Payroll Deduction Slots. -- Each payroll unit shall be
12 entitled to not less than four payroll deduction slots to be used
13 for payment of insurance premiums for products selected by the
14 Employee Insurance Committee and offered to the employees of the
15 payroll unit. The Employee Insurance Committee shall select only
16 one company per payroll deduction slot. The Company selected by
17 the Employee Insurance Committee shall be permitted to sell
18 through payroll deduction only the products specifically approved
19 by the Employee Insurance Committee. The assignment by the
20 Employee Insurance Committee of a payroll deduction slot shall be
21 for a period of not less than two years unless the insurance
22 company shall be in violation of the terms of the written
23 agreement specified in this subsection. The insurance company
24 awarded a payroll deduction slot shall, pursuant to a written
25 agreement setting out the rights and duties of the insurance
26 company, be afforded an adequate opportunity to solicit employees
27 of the payroll unit by making such employees aware that a
28 representative of the company will be available at a specified
29 time and at a location convenient to the employees.

30 Notwithstanding any other provision of the General Statutes,
31 once an employee has selected an insurance product for payroll
32 deduction, that product may not be removed from payroll deduction
33 for that employee without his or her specific written consent.

34 When an employee retires from State employment and payroll
35 deduction under this section is no longer available, the
36 insurance company may not terminate life insurance products
37 purchased under the payroll deduction plan without the retiree's
38 specific written consent solely because the premium is no longer
39 deducted from payroll.

40 (c1) Procedure for Selection of Insurance Product Proposals.
41 -- When soliciting insurance product proposals, the Committee
42 shall ensure that adequate notice of the solicitation has been

1 given and that all vendors listed in the Department of
2 Administration's central vendor registry for that insurance
3 product have been notified. All insurance product proposals
4 shall be sealed. The Committee shall open all proposals in public
5 and record them in the minutes of the Committee, at which time
6 the proposals become public records open to public inspection.

7 After the public opening, the Committee shall review the
8 proposals, examining the cost and quality of the products, the
9 reputation and capabilities of the insurance companies submitting
10 the proposals, and other appropriate criteria. The Committee
11 shall determine which proposal, if any, would meet the needs and
12 desires of the employees of that Committee's payroll unit and
13 shall award a payroll deduction slot to the company submitting
14 the proposal that meets those needs and desires. The Committee
15 may reject any or all proposals.

16 A company may seek to modify or withdraw a proposal only after
17 the public opening and only on the basis that the proposal
18 contains an unintentional clerical error as opposed to an error
19 in judgment. A company seeking to modify or withdraw a proposal
20 shall submit to the Committee a written request, with facts and
21 evidence in support of its position, prior to the award of the
22 payroll deduction slot, but not later than two days after the
23 public opening of the proposals. The Committee shall promptly
24 review the request, examine the nature of the error, and
25 determine whether to permit or deny the request.

26 (d) Criminal Penalty. -- It shall be a Class 3 misdemeanor for
27 any State employee, who has supervisory authority over any member
28 of the Employee Insurance Committee, to attempt to influence the
29 autonomy of any Employee Insurance Committee either in the
30 appointment of members to such Committee or in the operation of
31 such Committee; or for anyone to open a sealed insurance product
32 proposal or disclose or exhibit the contents of a sealed
33 insurance product proposal, prior to the public opening of the
34 proposal. The Commissioner of Insurance shall have the authority
35 to investigate complaints alleging acts subject to the criminal
36 penalty and shall report his findings to the Attorney General of
37 North Carolina.

38 (e) Re-evaluation. A Committee shall evaluate each product
39 under contract at least once every three years to ensure that it
40 continues to meet the needs and desires of the employees in the
41 payroll unit. The evaluation shall include a review of
42 comparable products registered with the Department of

1 Administration. The Committee must solicit new proposals when a
2 product no longer meets the needs and desires of the employees.

3 (f) Central registry.--The Department of Administration shall
4 maintain a central registry of the following:

5 (1) Vendors: A vendor may request the Department to
6 list it on the central registry. Registration shall
7 include the name of the vendor, basic non-
8 proprietary business information about the vendor,
9 its representatives or agents, and a description of
10 its available products. A vendor that is not
11 licensed to transact the business of insurance in
12 this State may not be listed on the registry.

13 (2) Employee insurance committees: Each employee
14 insurance committee shall report to the Department,
15 as directed by the Department, the names and terms
16 of its members, the insurance products if offers
17 its employees, the vendors providing those
18 products, the date when those products were last
19 bid, a summary of the review findings under
20 subsection (e) of this section, and the premiums
21 charged through payroll deduction for those
22 products.

23 (g) Technical assistance.-- The Department of Insurance shall
24 provide technical advice, within available funds, to the employee
25 insurance committees to assist them in understanding and
26 evaluating insurance products and their features."

27 Sec. 2. This act is effective upon ratification.
28 Notwithstanding the provisions of G.S. 58-31-60(b), as amended by
29 this act, employee insurance committee members serving on the
30 effective date of this act may continue to serve until the
31 expiration of that term.